
City of Madill
Financial Statements
Year-End June 30, 2011

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City of Madill
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 For the Fiscal Year Ended June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Members of the City Council
City of Madill, 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 City of Madill, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on those financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions- modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Madill, Oklahoma, as of June 30, 2011 and the respective changes in financial position – modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note I(B).

In accordance with *Government Auditing Standards*, we have issued our report dated August 3, 2012, on our consideration of City of Madill'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 opinions on the financial statements that collectively comprise the City of Madill, Oklahoma's, basic financial statements. The accompanying supplementary information as listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The budget to actual and combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The schedule of funding progress have 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 any assurance on them.

Rahhal Henderson Johnson, PLLC

Ardmore, Oklahoma
August 3, 2012

BASIC FINANCIAL STATEMENTS

City of Madill, Oklahoma
Government-Wide Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
June 30, 2011

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and Cash Equivalent	\$ 1,092,717	\$ 291,451	\$ 1,384,168
Restricted Cash and Cash Equivalent	10,270	360,639	370,909
Capital Assets			
Land, Land Improvements and Construction in Progress	93,136	676,140	769,276
Other Capital Assets, Net of Depreciation	3,993,339	4,034,939	8,028,278
Total Assets	\$ 5,189,462	\$ 5,363,169	\$ 10,552,631
LIABILITIES AND EQUITY			
Current Liabilities			
Employee Payroll Taxes Withheld	\$ 2,830	\$ 5,674	\$ 8,504
Bonds Pending Court	3,932	-	3,932
Refundable Meter Deposits	-	118,295	118,295
Long-term Liabilities			
Due Within One Year	77,039	215,543	292,582
Due in More Than One Year	79,020	1,659,813	1,738,833
Total Liabilities	\$ 162,821	\$ 1,999,325	\$ 2,162,146
Net Assets			
Invested in Capital Assets	\$ 4,086,475	\$ 2,835,723	\$ 6,922,198
Restricted			
Airport	3	-	3
Debt Service and Capital Projects	774,804	-	774,804
Cemetery	3,590	-	3,590
Unrestricted	161,769	528,121	689,890
Total Net Assets	\$ 5,026,641	\$ 3,363,844	\$ 8,390,485

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

City of Madill, Oklahoma
Government-Wide Statement of Revenues, Expenses and Changes in Net Assets – Modified Cash Basis
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities							
General Government	\$ 830,354	\$ 20,619	\$ 35,467	\$ -	\$ (774,268)	\$ -	\$ (774,268)
Highways and Streets	355,400	-	-	-	(355,400)	-	(355,400)
Public Safety	1,052,396	151,359	37,558	-	(863,479)	-	(863,479)
Health and Welfare	34,925	-	19,800	372,500	357,375	-	357,375
Culture and Recreation	250,904	67,285	17,020	-	(166,599)	-	(166,599)
Cemetery / Parks	205,282	17,738	-	-	(187,544)	-	(187,544)
Interest	10,035	-	-	-	(10,035)	-	(10,035)
Total Governmental Activities	<u>\$ 2,739,296</u>	<u>\$ 257,001</u>	<u>\$ 109,845</u>	<u>\$ 372,500</u>	<u>\$ (1,999,950)</u>	<u>\$ -</u>	<u>\$ (1,999,950)</u>
Business-Type Activities							
General Government	\$ 309,995	\$ 153,180	\$ -	\$ -	\$ -	\$ (156,815)	\$ (156,815)
Water	552,652	730,825	-	-	-	178,173	178,173
Sewer	342,452	249,110	-	-	-	(93,342)	(93,342)
Garbage	294,361	311,846	-	-	-	17,485	17,485
Interest Expense	79,680	-	-	-	-	(79,680)	(79,680)
Total Business Type Activities	<u>\$ 1,579,140</u>	<u>\$ 1,444,961</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (134,179)</u>	<u>\$ (134,179)</u>
Total Primary Government	<u>\$ 4,318,436</u>	<u>\$ 1,701,962</u>	<u>\$ 109,845</u>	<u>\$ 372,500</u>	<u>\$ (1,999,950)</u>	<u>\$ (134,179)</u>	<u>\$ (2,134,129)</u>
General Revenues							
Taxes					\$ 2,601,169	\$ -	\$ 2,601,169
Interest					4,585	2,992	7,577
Rent					42,588	-	42,588
Miscellaneous					113,350	11,071	124,421
Transfers					(802,531)	802,531	-
Total General Revenues and Transfers					<u>\$ 1,959,161</u>	<u>\$ 816,594</u>	<u>\$ 2,775,755</u>
Change in Net Assets					<u>\$ (40,789)</u>	<u>\$ 682,415</u>	<u>\$ 641,626</u>
Net Assets - Beginning					<u>5,067,430</u>	<u>2,681,429</u>	<u>7,748,859</u>
Net Assets - Ending					<u>\$ 5,026,641</u>	<u>\$ 3,363,844</u>	<u>\$ 8,390,485</u>

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

City of Madill, Oklahoma
Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
Governmental Funds
June 30, 2011

	General Fund	One Cent Sales Tax	Other Governmental Funds	Total
Assets				
Cash	\$ 308,779	\$ 778,924	\$ 5,014	\$ 1,092,717
Restricted Cash	10,270	-	-	10,270
Total Assets	\$ 319,049	\$ 778,924	\$ 5,014	\$ 1,102,987
Liabilities				
Employee Payroll Taxes Withheld	\$ 2,830	\$ -	\$ -	\$ 2,830
Bonds Pending Court	3,932	-	-	3,932
Total Liabilities	6,762	-	-	6,762
Fund Balances				
Restricted	\$ -	\$ 774,804	\$ 3,593	\$ 778,397
Assigned	54,623	4,120	3	58,746
Unassigned	257,664	-	1,418	259,082
Total Fund Balances	312,287	778,924	5,014	1,096,225
Total Liabilities and Fund Balances	\$ 319,049	\$ 778,924	\$ 5,014	

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 fund. 4,086,475

Long term liabilities are not due and payable in the current period and, therefore, are not reported in the funds (156,059)

Net assets of governmental activities. \$ 5,026,641

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

City of Madill, Oklahoma
Statement of Revenues, Expenditures and
Changes in Net Assets – Modified Cash Basis – Governmental Funds
For the Year Ended June 30, 2011

	General Fund	One Cent Sales Tax	Other Governmental Funds	Total
REVENUE				
Taxes	\$ 1,852,497	\$ 748,672	\$ -	\$ 2,601,169
Charges for Services	93,479	-	2,313	95,792
Interest	463	4,120	2	4,585
Rents	42,588	-	-	42,588
License and Permits	25,307	-	-	25,307
Fines	165,241	-	-	165,241
Intergovernmental	31,820	-	-	31,820
Grants	26,898	-	350,000	376,898
Miscellaneous	166,761	-	-	166,761
Total Revenue	<u>\$ 2,405,054</u>	<u>\$ 752,792</u>	<u>\$ 352,315</u>	<u>\$ 3,510,161</u>
EXPENDITURES				
Current				
General Government	752,630	\$ 4,996	\$ -	\$ 757,626
Highways and Streets	182,060	14,290	-	196,350
Public Safety	1,003,646	-	-	1,003,646
Cemetery / Parks	140,074	-	-	140,074
Culture and Recreation	210,395	-	-	210,395
Capital Outlay				
Cemetery / Parks	16,067	-	900	16,967
Culture and Recreation	730	-	-	730
Public Health and Welfare	-	1,473	-	1,473
Public Safety	29,672	3,287	-	32,959
Highways and Streets	-	120,321	-	120,321
Debt Service				
Principal	-	37,680	63,751	101,431
Interest	-	5,885	4,150	10,035
Total Expenditures	<u>\$ 2,335,274</u>	<u>\$ 187,932</u>	<u>\$ 68,801</u>	<u>\$ 2,592,007</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 69,780</u>	<u>\$ 564,860</u>	<u>\$ 283,514</u>	<u>\$ 918,154</u>
Other Financing Sources				
Capital Lease Financing	\$ -	\$ -	\$ -	\$ -
Transfers In	97,935	33,981	67,895	199,811
Transfers Out	(136,581)	(515,760)	(350,000)	(1,002,341)
Total Other Financing Sources	<u>\$ (38,646)</u>	<u>\$ (481,779)</u>	<u>\$ (282,105)</u>	<u>\$ (802,530)</u>
Net Change in Fund Balances	\$ 31,134	\$ 83,081	\$ 1,409	\$ 115,624
Fund Balances - Beginning	<u>281,153</u>	<u>695,843</u>	<u>3,605</u>	<u>980,601</u>
Fund Balances - Ending	<u>\$ 312,287</u>	<u>\$ 778,924</u>	<u>\$ 5,014</u>	<u>\$ 1,096,225</u>

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

City of Madill, Oklahoma
 Reconciliation of the Statement of Revenues, Expenditures and
 Changes in Net Assets – Modified Cash Basis – Governmental Funds
 to the Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis
 For the Year Ended June 30, 2011

Amounts reported for governmental activities
 in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$ 115,624
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	(257,852)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets.

This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>101,439</u>
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Change in net assets of governmental activities.	<u><u>\$ (40,789)</u></u>
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City of Madill, Oklahoma
Statement of Assets, Liabilities, Net Assets – Modified Cash Basis – Proprietary Fund
June 30, 2011

	<u>Madill Public Works Authority</u>
ASSETS	
Current Assets	
Cash and Cash Equivalent	\$ 291,451
Restricted Cash and Cash Equivalent	118,295
Total Current Assets	<u>\$ 409,746</u>
Noncurrent Assets	
Restricted Cash	\$ 242,344
Capital Assets	
Land	676,140
Other Capital Assets, Net of Depreciation	4,034,939
Total Noncurrent Assets	<u>\$ 4,953,423</u>
Total Assets	<u>\$ 5,363,169</u>
LIABILITIES AND EQUITY	
Current Liabilities	
Employee Payroll Taxes Withheld	\$ 5,674
Refundable Meter Deposits	118,295
Notes Payable - Current	215,543
Total Current Liabilities	<u>\$ 339,512</u>
Noncurrent Liabilities	
Notes Payable	<u>1,659,813</u>
Total Liabilities	<u>\$ 1,999,325</u>
Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 2,835,723
Restricted for Debt Service (nonexpendable)	242,344
Unrestricted	285,777
Total Net Assets	<u><u>\$ 3,363,844</u></u>

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

City of Madill, Oklahoma
Statement of Revenue, Expenses and Changes in Net Assets – Modified Cash Basis – Proprietary Fund
For the Year Ended June 30, 2011

	<u>Madill Public Works Authority</u>
Operating Revenues:	
Water	\$ 730,825
Sewer	249,110
Garbage	311,846
Administration Fee	153,180
Miscellaneous	11,073
Total Operating Revenue	<u>\$ 1,456,034</u>
Operating Expenses:	
Sanitation Services	\$ 294,361
General Services	151,059
Trustees	15,232
General Manager	41,744
Utilities Clerk	101,962
Water Treatment	230,058
Water Distribution	322,594
Wastewater	342,452
Total Operating Expenses	<u>\$ 1,499,462</u>
Operating Income (Loss)	<u>\$ (43,428)</u>
Nonoperating Revenues (Expenses):	
Transfers	\$ 802,531
Interest Income	2,992
Interest Expense	<u>(79,680)</u>
Total Nonoperating Revenues (Expenses)	<u>\$ 725,843</u>
Net Change in Net Assets	\$ 682,415
Total Net Assets - Beginning	<u>2,681,429</u>
Total Net Assets - Ending	<u><u>\$ 3,363,844</u></u>

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

City of Madill, Oklahoma
Statement of Cash Flows – Modified Cash Basis – Proprietary Fund
For the Year Ended June 30, 2011

	<u>Madill Public Works Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from Customers	\$ 1,459,963
Payments to Employees for Services	(571,050)
Payments to Vendors for Goods and Services	(655,902)
Net Cash Provided by Operating Activities	<u>\$ 233,011</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interfund Transfers from Other Funds	<u>\$ 54,059</u>
Net Cash Used by Noncapital Financing Activities	<u>\$ 54,059</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Capital Assets	\$ (535,927)
Interfund Transfer for Capital Debt	748,471
Principal Paid on Capital Debt	(193,679)
Interest Paid on Capital Debt	(79,680)
Net Cash Used by Capital Financing Activities	<u>\$ (60,815)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	<u>\$ 2,992</u>
Net Cash Provided by Investing Activities	<u>\$ 2,992</u>
Net Increase in Cash and Cash Equivalents	\$ 229,247
Cash and Cash Equivalents, Beginning of Year	<u>180,499</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 409,746</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Loss	\$ (43,428)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	272,507
Increase in Payroll Liabilities Withheld	(214)
Increase in Refundable Meter Deposits	4,146
Total Adjustments	<u>276,439</u>
Net Cash Provided by Operating Activities	<u>\$ 233,011</u>

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

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

The City of Madill, Oklahoma, (the City) is a charter city operating under a Council-Manager form of government authorized by the charter and Title 11 of the Oklahoma statutes. The governing body of the City is the City Council comprised of five elected members. The appointed City Manager is the administrative head of the City.

The accompanying financial statements present the City of Madill and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. There were no discretely presented component units.

Blended Component Unit

The Madill Public Works Authority was created January 1, 1971, for the use and benefit of the beneficiary, City of Madill, to furnish, construct, administer and finance any public works facilities or improvements for public purposes under the laws of the State of Oklahoma. The City Council of the City of Madill acts as the Board of Trustees of the Madill Public Works Authority. The rates for user charges and bond issuance authorizations are approved by the government council and the legal liability for the general obligation portion of the Authority's debt remains with the government. The Authority is reported as an enterprise fund.

B. Government-wide and fund financial statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The government-wide financial statements of the City are prepared on a modified cash basis of accounting. Under this basis, cash receipts are recognized as revenue at the date of receipt and cash payments are recognized as expenditures at date of payment with the following modifications:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in each fund-type financial statements.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Government-wide and fund financial statements (continued)

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. The modified cash basis of accounting is used. However, the governmental funds focus on a current financial resources measurement thus capital assets and debt is not recorded.

The City reports the following major government funds:

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

One Cent Sales Tax Fund - is a special revenue fund which accounts for dedicated sales tax to be used for repayment of debt by the Madill Public Works Authority, and water, sewer and street improvements. Sales tax is deposited in the One Cent Sales Tax Fund and transferred to the Madill Public Works Authority for payment of debt.

Nonmajor Governmental Funds are the Cemetery, Airport, Capital Projects and Grant Funds.

The City reports the Madill Public Works Authority (MPWA) as a major proprietary fund. MPWA accounts for the activities related to the provision of water and sewer services to businesses and residents. It operates the water and sewer treatment plants, water distribution system, sewer collections systems and pump stations.

Proprietary funds are accounted for using the modified cash basis of accounting modified as follows:

- Capital assets are recorded as assets when purchased and related depreciation is recorded.
- Long-term debt is recorded when incurred.
- Employee withholding taxes that have not been deposited with the IRS but relate to compensation paid are recorded as liabilities.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

B. Government-wide and fund financial statements (continued)

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

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

C. Assets, liabilities, and net assets or equity

1. Deposits and investments

For purposes of the statement of cash flows, the City considers short-term investments with original maturities of three months or less from the date of acquisition to be cash equivalents

Oklahoma Statutes authorize the City to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposits of financial institutions located in the state of Oklahoma or fully-insured certificates of deposits of financial institutions located outside the state; savings accounts, and county, municipal or school district general obligation debt.

The City does not have a specific policy limiting the concentration amount that may be invested with one issuer. The City has no formal policy on managing credit risk.

Public trusts created under Oklahoma Statutes Title 60 are not subject to the above investment limitations and are primarily governed by any restrictions in their trust or note indenture.

2. Interfund transactions

Interfund receivables and payables arise from interfund transactions and are recorded in the period transacted. Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to move unrestricted revenue collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

3. *Restricted assets*

Certain proceeds of the Authority's notes payable, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable loan covenants. The GECC and RECD debt service reserve accounts are used to report resources set aside to make up potential futures deficiencies, or to meet unexpected contingencies or to fund asset renewals and replacements. Customer utility deposits and reserves held with the Oklahoma Municipal Assurance Group are reported as restricted cash.

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,500 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Infrastructure	25
System infrastructure	30
Vehicles	5
Machinery and equipment	10

5. *Fund equity*

Beginning July 1, 2010, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

Fund Balance Classification: The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the entity is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. City of Madill, Oklahoma did not have any nonspendable resources as of June 30, 2011.

Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. City of Madill, Oklahoma has restricted resources by state law and from grants as of June 30, 2011.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal ordinance or resolution of the City Council. These amounts cannot be used for any other purpose unless the City Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.

Assigned: This classification includes amounts that are constrained by City of Madill, Oklahoma's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the City Council or through the council delegating this responsibility to the manager through the budgetary process.

Unassigned: This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

As of June 30, 2011, fund balances are composed of the following:

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

C. Assets, liabilities, and net assets or equity (continued)

	General Fund	One Cent Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
Restricted				
Airport	\$ -	\$ -	\$ 3	\$ 3
Cemetery	-	-	3,590	3,590
Debt Service and Capital Projects	-	774,805	-	774,805
Assigned				
Debt Service and Capital Projects	-	4,120	-	4,120
Wasterwater Treatment Cemetery	-	-	1,418 3	1,418 3
FSB	54,623	-	-	54,623
Unassigned	257,664	-	-	257,664
	<u>\$ 312,287</u>	<u>\$ 778,925</u>	<u>\$ 5,014</u>	<u>\$ 1,096,226</u>

The City would typically use restricted fund balances first, followed by committed resources and the assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

6. Government-wide Net Assets

Government-wide net assets are divided into three components:

- Invested in capital assets, net of related debt – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.
- Restricted net assets – consist of net assets that are restricted by creditors, by the state enabling legislation, by grantors (both federal and state), and by other contributors.
- Unrestricted – all other net assets are reported in this category.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

The governmental fund balance sheet includes a reconciliation of the \$4,087,375 difference between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets.

One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.”

Capital leases	\$(156,059)
----------------	-------------

Another element of that reconciliation is capital assets used in governmental activities that are not financial resources.

Capital assets, not being depreciated	\$ 93,136
Capital assets, being depreciated	12,584,207
Less Accumulated Depreciation	(8,590,868)
	\$ 4,086,475

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The government fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation of the (\$155,513) difference between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities.

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	\$ 169,347
Depreciation Expense	(427,199)
	\$ (257,852)

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities. (continued)

Another element of that reconciliation explains that “repayment of principal of long-term debt consumes the current financial resources of governmental funds.”

Capital lease proceeds	\$ -
Capital lease principal payments	(101,439)
	\$ (101,439)

III. BUDGETARY INFORMATION

The city manager submits an annual budget to the City Council in accordance with the City Charter and the Oklahoma Municipal Budget Act. In June the City Council adopts annual fiscal year appropriated budgets for all city funds.

The appropriated budget is prepared by fund, department and categories (personnel services, materials and supplies, other services and charges, capital outlay, debt services and transfers). Transfers of appropriations between departments within a fund require the approval of the City Manager. Transfers of appropriations between funds and supplements to the budget require City Council approval. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

IV. DEPOSITS

Deposit Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the government’s deposits may not be returned to it. The City follows state statutes regarding custodial credit risk which requires collateral for all deposits in excess of Federal Deposit Insurance. At June 30, 2011, the bank balance was \$1,820,110. \$31,387 of the bank balance was uninsured and uncollateralized.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

V. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Government Activities:</i>				
<i>Capital assets, not being depreciated</i>				
Land	\$ 93,136	\$ -	\$ -	\$ 93,136
Total capital assets, not being depreciated	<u>93,136</u>	<u>-</u>	<u>-</u>	<u>93,136</u>
<i>Capital assets, being depreciated</i>				
Land Improvements	1,196,940	-	-	1,196,940
Buildings	4,451,213	32,959	-	4,484,172
Furniture and Fixtures	33,047	-	-	33,047
Vehicles	1,260,304	-	-	1,260,304
Machinery and Equipment	1,774,036	16,067	-	1,790,103
Infrastructure	3,699,320	120,321	-	3,819,641
Total capital assets, being depreciated	<u>12,414,860</u>	<u>169,347</u>	<u>-</u>	<u>12,584,207</u>
Less Accumulated Depreciation	<u>8,163,669</u>	<u>427,199</u>	<u>-</u>	<u>8,590,868</u>
Total capital assets, being depreciated, net	<u>4,251,191</u>	<u>(257,852)</u>	<u>-</u>	<u>3,993,339</u>
Governmental activities capital assets, net	<u>4,344,327</u>	<u>(257,852)</u>	<u>-</u>	<u>4,086,475</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-type Activities:</i>				
<i>Capital assets, not being depreciated</i>				
Land	\$ 676,140	\$ -	\$ -	\$ 676,140
Total capital assets, not being depreciated	<u>676,140</u>	<u>-</u>	<u>-</u>	<u>676,140</u>
<i>Capital assets, being depreciated</i>				
Buildings	56,800	-	-	56,800
Vehicles	350,350	-	-	350,350
Machinery and Equipment	466,232	60,815	-	527,047
Water System	9,262,248	1,031,020	-	10,293,268
Sewer System	5,083,644	20,723	-	5,104,367
Total capital assets, being depreciated	<u>15,219,274</u>	<u>1,112,558</u>	<u>-</u>	<u>16,331,832</u>
Less Accumulated Depreciation	<u>12,024,386</u>	<u>272,507</u>	<u>-</u>	<u>12,296,893</u>
Total capital assets, being depreciated, net	<u>3,194,888</u>	<u>840,051</u>	<u>-</u>	<u>4,034,939</u>
Business activities capital assets, net	<u>3,871,028</u>	<u>840,051</u>	<u>-</u>	<u>4,711,079</u>
Total Primary Government	<u>\$ 8,215,355</u>	<u>\$ 582,199</u>	<u>\$ -</u>	<u>\$ 8,797,554</u>

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

V. CAPITAL ASSETS (CONTINUED)

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

Government activities:		
General government	\$	85,289
Public safety		77,206
Culture and recreation		39,776
Highways and streets		157,408
Cemetery/Parks		<u>67,520</u>
Total depreciation expense - governmental activities	\$	<u>427,199</u>
Business-type activities		
Water	\$	97,933
General government		17,897
Sewer		<u>156,677</u>
Total depreciation expense - business-type activities	\$	<u>272,507</u>

VI. INTERFUND TRANSFERS

Interfund transfers as of June 30 consisted of the following:

		Transfer From				
		One Cent Sales				
		General Fund	Tax	Airport	All Others	Total
T r a n s f e r T o	General Fund	\$ -	\$ 97,935	\$ -	\$ -	\$ 97,935
	One Cent Sales Tax	33,981	-	-	-	33,981
	Airport	-	-	-	-	-
	Madill Public Works Authority	34,706	417,825	-	350,000	802,531
	All Others	<u>67,894</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>67,894</u>
	Total	<u>\$ 136,581</u>	<u>\$ 515,760</u>	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 1,002,341</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

VII. LONG-TERM LIABILITIES

A summary of long-term liability activity for the year ended June 30, 2011, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
Governmental Activities					
Capital Lease Obligations	\$ 257,498	\$ -	\$ 101,439	\$ 156,059	\$ 77,039
Business-Type Activities					
Notes Payable	<u>1,492,405</u>	<u>576,630</u>	<u>193,679</u>	<u>1,875,356</u>	<u>215,543</u>
	<u>\$ 1,749,903</u>	<u>\$ 576,630</u>	<u>\$ 295,118</u>	<u>\$ 2,031,415</u>	<u>\$ 292,582</u>

Business-type activities long-term liabilities at June 30, 2011, consisted of the following:

Type of Indebtedness(purpose)	Maturity	Interest Rates	Annual Installments	Original Issue Amount	Outstanding at June 30, 2011
General Electric Capital Corporation Note (GECC) (financed costs of water system construction, operation and maintenance)	February, 2020	5.00%	\$ 11,293	\$ 2,300,000	\$ 940,338
Rural Economic and Community Development Notes (financed costs of sewage treatment plant construction)	December, 2014	4.50%	10,445	1,650,000	346,735
Landmark Bank (financed costs of construction of standpipe)	September, 2021	variable	3,699	600,000	588,283
					<u>\$ 1,875,356</u>

As of June 30, 2011, annual debt service requirements of the business-type activities to maturity are as follows:

Year Ending June 30	Principal	Interest
2012	\$ 215,543	\$ 74,260
2013	232,493	72,108
2014	202,169	61,378
2015	145,331	53,330
2016	153,672	46,172
2017-2021	566,212	159,429
2022-2026	<u>359,936</u>	<u>3,877</u>
	<u>\$ 1,875,356</u>	<u>\$ 470,554</u>

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

VII. LONG-TERM LIABILITIES (continued)

The RECD Notes Payable are secured by the fixed assets and the service revenues of the MPWA. The MPWA receives a special one cent sales tax approved for the purpose of assisting the MPWA in meeting principal, interest, and debt service requirements on its authorized indebtedness. Payments are serviced from the One-Cent sales tax fund.

The MPWA at all times will maintain schedules of rates and charges for services rendered through the mortgage property which will be sufficient at all times to provide for the payment of the operation and maintenance thereof and the installment payments on the notes.

Governmental Activities Capital Lease Obligations

The City has entered into lease agreements as lessee for financing the acquisition of certain equipment. The lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease term and it has been recorded at the present value of the future minimum lease payments. The lease contains a cancellation clause which gives the City the ability to terminate the lease agreement at the end of each fiscal year.

The assets under capital lease are as follows:

Machinery and equipment	\$	178,304
Vehicles		268,991
less accumulated depreciation		<u>(225,471)</u>
	\$	<u><u>221,824</u></u>

The schedule of future minimum lease payments under the capital lease and the present value of the net minimum lease payments at June 30 are as follows:

	Year Ending	
	June 30	
	<u>2012</u>	\$ 82,960
	2013	49,446
	2014	20,177
	2015	<u>13,349</u>
Present value of future minimum lease payments		\$ 165,932
less: Interest		<u>(9,873)</u>
Net Minimum lease payments		\$ 156,059
Current portion		<u>(77,039)</u>
Long-term portion		<u><u>\$ 79,020</u></u>

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

VIII. RESTRICTED ASSETS

The GECC and RECD notes payable require the MPWA to establish and maintain the following reserves which are not fully funded at June 30, 2011.

Debt service reserve requirements	
GECC Note	\$ 135,600
RECD Notes	125,340
	260,940
Restricted funds held	(242,344)
Reserve shortage	\$ (18,596)

Restricted cash as of June 30, 2011 is as follows:

Funds restricted for debt service reserves	
GECC Note	\$ 136,000
RECD Notes	106,344
	\$ 242,344
Funds restricted for other purposes	
Meter deposits	\$ 118,295

IX. PENSION PLANS

Municipal Retirement Plan

The City of Madill and its employees participate in the Oklahoma Municipal Retirement Fund. All regular full-time employees, except those covered under another retirement system are eligible. Employees are vested at 7 years.

The OMRF issues a publicly available financial report that includes financial statements and the required supplementary information that can be obtained by requesting a copy at City Hall.

Funding Policy: The contribution requirements of City of Madill and Madill Public Works Authority and employees are established and may be amended by the OMRF board. Employees are required to contribute 4.50 percent of their annual covered salary after tax.

City of Madill and Madill Public Works Authority are required to contribute at an actuarially determined rate; the rate at June 30, 2011 is 8.72 percent of covered payroll.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

X. PENSION PLANS (continued)

Annual Pension Cost: For 2010-2011, City of Madill and Madill Municipal Authority's annual pension cost of \$41,940 and \$32,090, respectively, were equal to the required contributions. The required contribution was determined as part of the January 1, 2010 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (I) 7.5 percent investment rate of return, (II) projected salary increases due to inflation of 3 percent, compounded annually, and (III) projected salary increases due to age/seniority, compounded annually. Asset valuation method was actuarial method.

The funded status of the plan as of January 1, 2011, the most recent valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b- a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/2011	1,708,153	2,285,621	577,468	74.73%	839,136	68.82%

The schedule of funding progress presented as supplementary information immediately following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the AAL for benefits.

Trend Information:

Year Ending June 30	Contributio n Rate	City		MPWA		Net Pension Obligation
		Cost (APC)	Contributed	Cost (APC)	Contributed	
2011	8.72%	\$ 41,940	100%	\$ 32,090	100%	-
2010	8.27%	\$ 40,845	100%	\$ 37,001	100%	-
2009	8.27%	30,981	100%	\$ 28,551	100%	-

Policemen's Retirement Plan

Police department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Police Pension and Retirement System, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

X. PENSION PLANS (continued)

State of Oklahoma, and the participating employees. 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. A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equals 2.5% of the average compensation of the highest 30 consecutive months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years.

The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% for the year ended June 30, 2011. Participating members are required to contribute 8%.

The Oklahoma State Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the System and is required by statute to make appropriations as necessary to insure benefit payments are made.

Trend Information:

Year	Covered	Pension	Employee	On-Behalf	
Ending June 30	Payroll	Cost	City Share	Share	Payments
2011	\$ 357,223	\$ 75,017	\$ 46,439	\$ 28,578	\$ 35,365
2010	382,238	80,270	49,691	30,579	34,784
2009	378,638	79,514	49,223	30,291	42,407

Additional information can be obtained by writing Oklahoma Police Pension and Retirement Board, 1001 N.W. 63rd, Suite 305, Oklahoma City, OK 73116.

Firefighters' Retirement Plan

Fire department employees in Oklahoma participate in a state administered pension program established under legislative authority, Oklahoma Firefighters' Pension Fund, which is a cost-sharing multiple-employer public employee retirement system (PERS). Under this program, contributions are made by each of three parties - the City, the State of Oklahoma, and the participating employees. 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.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

X. PENSION PLANS (continued)

A participant with twenty years of service may retire with a normal retirement allowance. The normal retirement allowance paid monthly for life and then to beneficiaries equal to 2.5% of the average compensation of the highest 30 months of the last 60 months of contributory service multiplied by the number of years of credited service up to the maximum of 30 years. The contribution rates for the City and its employees are established by Statute. The City is required to contribute 13% per the year June 30, 2011. Participating members are required to contribute 8%.

The Oklahoma State Legislature has the authority to grant percentage increases or special one-time payments to persons receiving benefits from the System and is required by statute to make appropriations as necessary to insure benefit payments are made.

Trend Information:

Year					
Ending June 30	Covered Payroll	Pension Cost	City Share	Employee Share	On-Behalf Payments
2011	\$ 194,477	\$ 40,840	\$ 25,282	\$ 15,558	\$ 47,841
2010	193,969	40,733	25,216	15,518	42,285
2009	187,217	39,316	24,348	14,977	41,000

Additional information can be obtained by writing Oklahoma Firefighters Pension and Retirement Board, 4545 N. Lincoln Blvd., Suite 165, Oklahoma City, OK 73105.

XI. CONTRACTUAL OBLIGATIONS

S.O.R.D.

The City has entered into a contract with Southern Oklahoma Regional Disposal (S.O.R.D.) to provide solid waste collection and disposal services for the community. Charges for such services are billed and collected through the MPWA. The MPWA then makes payments to S.O.R.D. according to amounts actually collected on a monthly basis, less a 6% servicing fee retained by the City. The board of S.O.R.D. is made up of government officials from the S.O.R.D. service area.

City of Madill, Oklahoma
Notes to Financial Statements
June 30, 2011

XI. CONTRACTUAL OBLIGATIONS (continued)

Cemetery

The City has entered into a purchase contract for the acquisition of certain land for the use of the City's cemetery. Under this contract, the City is required to submit one-tenth (10%) of all proceeds derived from the sale of grave lots within the area of the land purchased to the original land owners. For the year ended June 30, 2011, 10% of these lot sales totaled \$720.

XII. CONTINGENCIES

Federal Programs

The City participates in a number of federally assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The final acceptance of the audits of these programs including the year ended June 30, 2011, has not been given. Accordingly, the City's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time. However, the City expects such amounts, if any, to be immaterial.

XIII. RISK MANAGEMENT

The City is exposed to various risks of loss (torts, theft of, damage to, or destruction of assets, business interruptions, errors and omissions, job-related illnesses or injuries to employees, and acts of God) and has established a risk management strategy that attempts to minimize losses and the carrying cost of insurance. There have been no significant reductions in insurance coverage from the prior year and settlements have not exceeded coverage in the past three years.

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

Workers' Compensation - Workers' compensation is insured through CompSource Oklahoma. Risk of loss retained is limited to the excess of insurance liability coverage limits set by CompSource Oklahoma.

SUPPLEMENTARY INFORMATION

City of Madill, Oklahoma
 Supplemental Schedule
 Oklahoma Municipal Retirement Fund
 Schedule of Funding Progress (unaudited)
 June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/c
1/1/2002	1,168,250	1,061,264	(106,986)	110.08%	587,795	(18.20%)
1/1/2003	1,085,497	1,123,141	37,644	96.65%	653,870	5.76%
1/1/2004	1,142,198	1,203,567	61,369	94.90%	670,182	9.16%
1/1/2005	1,221,885	1,271,079	49,194	96.13%	646,787	7.61%
1/1/2006	1,298,151	1,288,564	(9,587)	100.74%	657,067	(1.46%)
1/1/2007	1,384,752	1,438,172	53,420	96.29%	743,491	7.19%
1/1/2008	1,489,675	1,768,509	278,834	84.23%	790,476	35.27%
1/1/2009	1,478,139	1,942,065	463,926	76.11%	858,178	54.06%
1/1/2010	1,575,025	2,139,739	564,714	73.61%	917,294	61.56%
1/1/2011	1,708,153	2,285,621	577,468	74.73%	839,136	68.82%

City of Madill, Oklahoma
Supplemental Schedule
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
General Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 1,765,700	\$ 1,856,720	\$ 1,852,497	\$ (4,223)
Charges for Services	161,300	165,100	153,497	(11,603)
Fines	185,500	189,100	138,438	(50,662)
License and Permits	9,000	9,000	7,877	(1,123)
Interest	100	100	355	255
Intergovernmental	28,800	83,800	85,520	1,720
Miscellaneous	100,307	173,543	161,344	(12,199)
Total Revenue	<u>\$ 2,250,707</u>	<u>\$ 2,477,363</u>	<u>\$ 2,399,528</u>	<u>\$ (77,835)</u>
EXPENDITURES				
Current				
General Government	\$ 739,530	\$ 802,706	\$ 747,209	\$ 55,497
Highways and Streets	198,124	198,124	182,060	16,064
Public Safety	971,305	1,057,000	1,033,318	23,682
Culture and Recreation	210,860	219,960	209,526	10,434
Park & Cemetery	155,086	155,086	156,141	(1,055)
Total Expenditures	<u>\$ 2,274,905</u>	<u>\$ 2,432,876</u>	<u>\$ 2,328,254</u>	<u>\$ 104,622</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (24,198)</u>	<u>\$ 44,487</u>	<u>\$ 71,274</u>	<u>\$ 26,787</u>
Other Financing Sources (Uses)				
Transfers In	\$ 75,000	\$ 75,000	\$ 97,935	\$ 22,935
Transfers Out	(67,072)	(135,757)	(136,581)	(824)
Total Other Financing Sources (Uses)	<u>\$ 7,928</u>	<u>\$ (60,757)</u>	<u>\$ (38,646)</u>	<u>\$ 22,111</u>
Net Change in Fund Balances	\$ (16,270)	\$ (16,270)	\$ 32,628	\$ 48,898
Fund Balance - Beginning	149,217	149,217	225,035	75,818
Fund Balance - Ending	<u>\$ 132,947</u>	<u>\$ 132,947</u>	<u>\$ 257,663</u>	<u>\$ 124,716</u>

City of Madill, Oklahoma
Supplemental Schedule
Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash Basis
Budget to Actual
One Cent Sales Tax Fund
For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
REVENUE				
Taxes	\$ 700,000	\$ 700,000	\$ 748,672	\$ 48,672
Interest Income	6,000	6,000	4,120	(1,880)
Total Revenue	<u>\$ 706,000</u>	<u>\$ 706,000</u>	<u>\$ 752,792</u>	<u>\$ 46,792</u>
EXPENDITURES				
Capital Outlay				
General Government	\$ 5,000	\$ 5,000	\$ 4,996	\$ 4
Highways and Streets	246,800	246,800	134,611	112,189
Public Safety	3,300	3,300	3,287	13
Public Health and Welfare	5,000	5,000	1,473	3,527
Debt Service				
Principal	37,681	37,681	37,680	1
Interest	5,885	5,885	5,885	-
Total Expenditures	<u>\$ 303,666</u>	<u>\$ 303,666</u>	<u>\$ 187,932</u>	<u>\$ 115,734</u>
Excess (Deficiency) Of Revenues Over (Under) Expenditures	\$ 402,334	\$ 402,334	\$ 564,860	\$ 162,526
Other Financing Sources (Uses)				
Transfers	(525,856)	(525,856)	(481,779)	44,077
Total Other Financing Sources (Uses)	<u>\$ (525,856)</u>	<u>\$ (525,856)</u>	<u>\$ (481,779)</u>	<u>\$ 44,077</u>
Net Change in Fund Balance	\$ (123,522)	\$ (123,522)	\$ 83,081	\$ 206,603
Fund Balance - Beginning	698,469	698,469	695,843	(2,626)
Fund Balance - Ending	<u>\$ 574,947</u>	<u>\$ 574,947</u>	<u>\$ 778,924</u>	<u>\$ 203,977</u>

City of Madill, Oklahoma
Supplemental Schedule
Combining Statement of Assets, Liabilities and Net Assets – Modified Cash Basis
Nonmajor Governmental Funds
June 30, 2011

	<u>Cemetery</u>	<u>Airport</u>	<u>Capital Projects</u>	<u>Grant</u>	<u>Total</u>
Assets					
Cash	\$ 3,593	\$ 3	\$ -	\$ 1,418	\$ 5,014
Total Assets	<u>3,593</u>	<u>\$ 3</u>	<u>-</u>	<u>1,418</u>	<u>5,014</u>
Liabilities					
Fund Balances					
Restricted	\$ 3,590	\$ 3	\$ -	\$ -	\$ 3,593
Assigned	3	-	-	-	3
Unassigned	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,418</u>	<u>1,418</u>
Total Fund Balances	<u>\$ 3,593</u>	<u>3</u>	<u>\$ -</u>	<u>\$ 1,418</u>	<u>\$ 5,014</u>
Total Liabilities and Fund Balances	<u>\$ 3,593</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 1,418</u>	<u>\$ 5,014</u>

City of Madill, Oklahoma
Supplemental Schedule
Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Modified Cash
Basis
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Cemetery	Airport	Capital Projects	Grants	Total
REVENUE					
Charges for Services	\$ 2,313	\$ -	\$ -	\$ -	\$ 2,313
Interest	2	-	-	-	2
Rental Income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total Revenue	<u>2,315</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 352,315</u>
EXPENDITURES					
Current					
General Government	\$ -	\$ -	\$ -	\$ -	\$ -
Culture and Recreation	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Capital Outlay					
General Government	-	-	-	-	-
Cemetery / Parks	900	-	-	-	900
Public Safety	-	-	-	-	-
Debt Service					
Principal	-	-	63,751	-	63,751
Interest	-	-	4,150	-	4,150
Total Expenditures	<u>\$ 900</u>	<u>\$ -</u>	<u>\$ 67,901</u>	<u>\$ -</u>	<u>\$ 68,801</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 1,415</u>	<u>\$ -</u>	<u>\$ (67,901)</u>	<u>\$ 350,000</u>	<u>\$ 283,514</u>
Other Financing Sources					
Transfers In	\$ -	-	\$ 67,895	\$ -	\$ 67,895
Transfers Out	-	-	-	(350,000)	(350,000)
Total Other Financing Sources	<u>-</u>	<u>\$ -</u>	<u>67,895</u>	<u>(350,000)</u>	<u>(282,105)</u>
Net Change in Fund Balances	\$ 1,415	\$ -	\$ (6)	\$ -	\$ 1,409
Fund Balances - Beginning	2,178	3	6	1,418	3,605
Fund Balances - Ending	<u>\$ 3,593</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 1,418</u>	<u>\$ 5,014</u>



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

City Council
City of Madill
Madill, Oklahoma 73446

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of City of Madill, Oklahoma as of and for the year ended June 30, 2011, and have issued our report thereon dated August 3, 2012. Our report on the financial statements disclosed that, as described in Note I(B) to the financial statements the City prepared its financials on the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. 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 City of Madill, Oklahoma's internal control over financial reporting in order to determine 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 City of Madill, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Madill, Oklahoma'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 over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we

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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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider deficiencies 2011-2, 2011-3 and 2010-4 described in the accompanying schedule of findings and responses to be material weaknesses.

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 deficiency 2011-1 described in the accompanying schedule of findings and responses to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Madill'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* which are described in the accompanying schedule of findings and responses as item 2011-1.

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

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

A handwritten signature in black ink that reads "Rakhhal Henderson Johnson, PLLC". The signature is written in a cursive style and is positioned above a light gray rectangular background.

Ardmore, Oklahoma
August 3, 2012

City of Madill, Oklahoma
Schedule of Findings and Responses
June 30, 2011

Purchasing

2011-1 Condition – Expenditures did not meet purchasing requirements of City ordinance.

Criteria – Ordinance No. 693 covers purchases of goods and services. Purchases over \$200 require requisitions that should be prepared and signed before the purchase is made.

Context – (1) Purchase requisitions are not being dated when completed so proper approval prior to purchase could not be determined. (2) 4 of 25 invoices examined did not signature evidencing receipt.

Effect – Purchases occurred without meeting the requirements of the purchasing ordinance..

Cause – Many purchases are approved individually by council but the purchase order is not created until after the purchase has occurred.

Recommendation – The City should strengthen internal controls surrounding disbursements to ensure all purchases are properly approved before the purchase occurs and all required documentation is obtained.

Management Response – Management will begin a more comprehensive review of the expenditure process to stress with department heads the process to be followed to be in compliance with the ordinance.

Debt Reserves

2011-2 Condition – Loan #7 has a reserve requirement of \$18,996. The debt reserve accounts maintained are insufficient in the amount of \$18,596.

Criteria – Rural Economic and Community Development notes contain covenants requiring debt reserve accounts.

Effect – Non compliance with debt covenant.

Cause – City was not aware of this reserve requirement

Recommendation – The City should strengthen internal controls surrounding debt outstanding and covenants to insure that covenants are met.

Management Response – Management was unaware of these requirements and will correct the situation immediately.

City of Madill, Oklahoma
Schedule of Findings and Responses
June 30, 2011

Capitalization Policy

2011-3 Condition – Capital assets were not properly captured.

Criteria – The entity should have a capitalization and useful lives policy for accounting for acquisition and recording of capital assets. Capital asset depreciation charges should be calculated and the listing reconciled to the financial records.

Effect – Material adjustments were necessary to properly record capital asset additions and depreciation.

Cause – The City has followed an informal policy for capturing capital asset additions.

Recommendation – A capitalization threshold amount should be set along with a definition for expenditures that should be capitalized versus those that should be expensed based on estimated useful life of the item acquired. A system should be developed for maintaining a capital asset listing to use for computing capital asset depreciation charges. The listing should be reviewed on a regular basis to determine completeness and that assets listed are still in use.

Management Response – Processes will be developed to capture this information within the normal course of operations.

Financial Reporting

2011-4 Condition – Material adjustments were necessary to prepare the financial statements. In addition, the City does not have a financial reporting system in place to ensure that the trial balances used in the year-end financial statement preparation process is final, contains all valid journal entries, and that all relevant information is disclosed in the appropriate accounting period and in accordance with the basis of accounting used to prepare the financial statements.

Criteria - Effective internal control over financial reporting includes the identification and analysis of the risk of material misstatements in the financial statements. Management is responsible for designing a system to manage the risks even if the preparation is transferred to a service provider. An individual with sufficient awareness of or experience in accounting principles and disclosure requirements should be designated to oversee the preparation of the year-end financial statements.

Effect – Material adjustments were necessary.

City of Madill, Oklahoma
Schedule of Findings and Responses
June 30, 2011

Cause –The internal control structure of the City focuses primarily on daily operations. The staff does reconcile the monthly financial information needed to provide accurate reports on a budgetary basis. The City does not currently have a control system in place to determine that the trial balances used in the financial statement preparation process at year-end are final when prepared on the modified cash basis or to determine appropriate financial statement disclosures.

Recommendation – The City needs to evaluate the cost of engaging a third party or designating and training an employee with sufficient awareness of or experience in accounting principles related to municipalities to ensure that all journal entries are recorded and that supporting financial records agree with the general ledger for all accounts as needed at year-end to report on the modified cash basis. In addition, this person would be responsible for determining year-end financial disclosures are adequate..

Management Response – We plan to engage an outside CPA to assist with financial reporting when necessary. We will continue to focus on ways that we can perform more of the financial reporting duties at year-end.