

*Independent Auditor's Report*

***Minco Gas Authority***

*Minco, Oklahoma*

*Year Ending June 30, 2013*

**MINCO GAS AUTHORITY**  
**MINCO, OKLAHOMA**  
June 30, 2013

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of  
Minco Gas Authority  
Minco, Oklahoma

### Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the Minco Gas Authority, Minco, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion 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 the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the Minco Gas Authority as of June 30, 2013, and the respective changes in financial position-modified cash basis and cash flows-modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole that collectively comprise the Authority's basic financial statements. The accompanying combining financial statements (pages D-1, D-2 and D-3) are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

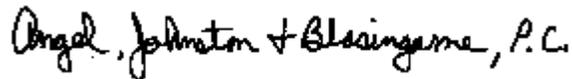
The combining financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

## **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2013, on our consideration of the Authority'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Angel, Johnston & Blasingame, P.C.  
September 12, 2013

**MINCO GAS AUTHORITY**  
**Statement of Net Position**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2013**

**ASSETS**

**Current Assets**

Cash and cash equivalents	\$ 171,138
Restricted cash and cash equivalents	2,805
Investments	125,000
Restricted investments	40,000
Inventory	13,157
<i>Total Current Assets</i>	<u>352,100</u>

**Non Current Assets**

Land and other non-depreciable assets	2,011
Other capital assets, net of depreciation	381,950
<i>Total Non Current Assets</i>	<u>383,961</u>

<i>Total Assets</i>	<u>736,061</u>
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**LIABILITIES**

**Current Liabilities**

Current Portion Long Term Debt	1,550
<i>Total Current Liabilities</i>	<u>1,550</u>

**Non Current Liabilities**

Refundable deposits	42,805
Long Term Debt	25,688
<i>Total Non Current Liabilities</i>	<u>68,493</u>

<i>Total Liabilities</i>	<u>70,043</u>
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**NET POSITION**

Net Investment in Capital Assets	356,723
Restricted	-
Unrestricted	309,295
	<u>666,018</u>

<i>Total Net Position</i>	<u>\$ 666,018</u>
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The accompanying notes are an integral part of the financial statements.

**MINCO GAS AUTHORITY**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2013**

<b>Operating Revenue</b>	
Gas charges	\$ 349,365
Tap Fees	800
Miscellaneous	3,684
<i>Total Operating Revenue</i>	<u>353,849</u>
<b>Operating Expenses</b>	
Cost of gas sold	153,460
Audit and legal fees	4,095
Customer Reimbursement	22
Drug and alcohol testing	644
Equipment	2,098
Fees and dues	2,906
Insurance-employee health	6,995
Insurance-general	9,687
Maintenance	7,927
Postage/Office supplies	4,839
Retirement	2,987
Returned checks	511
Salaries and payroll taxes	64,690
Sales tax	11,655
Truck expense	3,012
Trustee expense	510
Utilities	4,474
Depreciation	20,541
<i>Total Operating Expenses</i>	<u>301,053</u>
<i>Operating Income (Loss)</i>	<u>52,796</u>
<b>Non Operating Revenues (Expense)</b>	
Investment income	2,902
Building rent	1,950
Contributions - Donated Asset	1,500
<i>Total Non Operating Revenues (Expenses)</i>	<u>6,352</u>
<i>Income (Loss) Before Transfers</i>	59,148
Transfers In (Out)	<u>-</u>
<i>Change in Net Position</i>	59,148
<i>Net Position - Beginning of Year, restated</i>	<u>606,870</u>
<i>Net Position - End of Year</i>	<u><u>\$ 666,018</u></u>

The accompanying notes are an integral part of the financial statements.

**MINCO GAS AUTHORITY**  
**Statement of Cash Flows**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2013**

**Cash flows from operating activities**

Receipts from customers	\$ 353,849
Payments to employees	(64,690)
Payments to suppliers	(215,823)
Other receipts (payments)	(2,592)
<i>Net cash provided by (used for) operating activities</i>	<u>70,744</u>

**Cash flows from noncapital financing activities**

Transfers to other funds	-
Transfers from other funds	-
<i>Net cash provided by (used for) noncapital financing activities</i>	<u>-</u>

**Cash flows from capital and related financing activities**

Note payments	(1,239)
Purchase of capital assets	(10,251)
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(11,490)</u>

**Cash flows from investing activities**

Interest received	2,902
Building rent	1,950
<i>Net cash provided by (used for) investing activities</i>	<u>4,852</u>

<i>Net increase (decrease) in cash and cash equivalents</i>	64,106
<i>Cash and cash equivalents at beginning of year</i>	109,837
<i>Cash and cash equivalents at end of year</i>	<u>\$ 173,943</u>

**Reconciliation of operating income (loss) to net cash provided (used) by operating activities**

Operating income (loss)	52,796
Adjustment to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	20,541
Change in inventory	(2,426)
Change in refundable deposits	(167)
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 70,744</u>

The accompanying notes are an integral part of the financial statements.

**Minco Gas Authority**  
**Notes To Basic Financial Statements**  
For the Year Ended June 30, 2013

**Note 1 - Summary of Significant Accounting Policies**

As discussed further in Note 1.C., these financial statements are presented on the modified cash basis of accounting. The modified cash basis of accounting differs from accounting principles generally accepted in the United States of America (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. 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 Minco Gas Authority is a public trust created for the use and benefit of the Town of Minco, Oklahoma and for public purposes pursuant to the provisions of Title 60, Oklahoma Statutes 1951, Section 176 to 180 inclusive as amended by Title 60, Chapter 4, Oklahoma Session Laws 1953. The Oklahoma Trust Act and other applicable statutes of the State of Oklahoma also apply. The governing body consists of five trustees with one acting as the Chairman. Also, one of these trustees must also serve on the Town Council. The Authority has no taxing power, and therefore, was created to finance the Town gas services through issuance of revenue refunding bonds. The Authority retains title to all assets, which are acquired or constructed with Authority debt or other Authority generated resources. The Town, as beneficiary of the public trust, receives title to any residual assets when the public trust is dissolved.

**Related Organizations**

**Town of Minco, Oklahoma** - The Town of Minco, Oklahoma is a municipality that is the beneficiary to the public trust. The Town does not appoint trustees to the Board, and the Authority is not fiscally dependent upon the Town. However, the Town Council must approve all indebtedness or obligations of the Authority by a two-thirds (2/3) vote. Therefore, the Authority is not considered to be a component unit of Minco Town.

**1.B. Basis of Presentation**

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The reporting entity includes the following enterprise funds:

Gas Revenue - Accounts for activities of the public trust in providing gas services to the public.

Meter - Accounts for refundable gas meter deposits.

**1.C. Measurement Focus and Basis of Accounting**

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recognized and recorded in the financial statements regardless of the measurement focus applied.

The Authority's financial statements use the economic resources measurement focus and are presented on the modified cash basis of accounting. Revenues are recognized when they are received and expenses are recorded when paid with the following modifications:

**Minco Gas Authority**  
**Notes To Basic Financial Statements**  
For the Year Ended June 30, 2013

**Note 1 - Summary of Significant Accounting Policies, (continued)**

**1.C. Measurement Focus and Basis of Accounting, (continued)**

- Capital assets are recorded when purchased and related depreciation is recorded.
- Inventory is recorded as an asset when purchased.
- Long-term debt is recorded when incurred.

This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The modified cash basis of accounting was adopted for the 2012-2013 year.

If the Authority utilized the basis of accounting recognized as generally accepted, the financial statements would use the accrual basis of accounting. 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 Equity**

Cash and Cash Equivalents - For the purpose of the statement of cash flows, the Authority 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 - Investments consist of certificate of deposits maturing beyond three months. Investments are stated at cost, which approximates market value.

Accounts Receivable – As a result of the use of the modified cash basis of accounting, accounts receivable and other revenue related receivables are not reported in the financial statements.

Inventory - Inventory consisting of pipe, valves, fittings, regulators, etc. is stated at cost. The cost of other consumable materials and supplies on hand is not significant to the financial statements, and therefore, the Authority has chosen to record these items as expenses at the time of purchase.

Restricted Assets - Restricted assets include assets that are legally restricted as to their use. The primary restricted assets are related to utility customer deposits.

Capital Assets – Capital assets acquired are capitalized and stated at historical cost or estimated historical cost, if actual historical cost is not available.

A record of fixed assets purchased prior to July 1, 1984 was not maintained by the Authority. Therefore, the original cost of the gas system was estimated to be the amount of the 1963 bond issue. Line extensions, equipment, furniture and fixtures, and vehicles acquired since July 1, 1984 are recorded at cost.

Donated capital assets are recorded at their fair market values as of the date received. Interest incurred during the construction phase of capital assets is reflected in the capitalized value of the asset constructed. A capitalization threshold of \$400 is used to report capital assets.

**Minco Gas Authority**  
**Notes To Basic Financial Statements**  
For the Year Ended June 30, 2013

**Note 1 - Summary of Significant Accounting Policies, (continued)**

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

Depreciation of exhaustible capital assets is recorded as an expense over the estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and Improvements	40 Years
Gas System and Improvements	40 Years
Gas Line Upgrades	20 Years
Furniture and Fixtures	10 Years
Vehicles and Equipment	5 Years

Current Liabilities – Refundable meter deposits represent the funds received from customers for their gas 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. Also, deposits are refunded to homeowners with good payment history for one year.

Long-Term Debt - Long-Term debt to be repaid from Authority resources are reported as liabilities in the Statement of Net Position. The long-term debt is presently comprised of two (2) notes. See Note 2.E.

Net Position - Net position is divided into three components:

- a. *Net Investment in Capital Assets* – 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 position* – 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 position* – All other net assets that do not meet the definition of “restricted” or “net investment in capital assets.”

It is the Authority’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

**1.E. Revenues and Expenses**

Operating and Nonoperating Revenues – 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.

Expenses –The Authority reports expenses relating to the use of economic resources.

Interfund Activity – Transfers are the flow of assets from one fund to another where repayment is not expected and is reported as transfers in and out.

**Minco Gas Authority**  
**Notes To Basic Financial Statements**  
For the Year Ended June 30, 2013

**Note 1 - Summary of Significant Accounting Policies, (continued)**

**1.F. Use of Estimates**

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

**Note 2 - Detailed Notes on Transaction Classes/Accounts**

**2.A. Deposits, Investments, and Collateral**

*Deposits and Investments* - The Authority's investment policy is governed by the board of trustees and any restrictions in the trust indenture. Collateral is required for all uninsured deposits of funds in financial institutions. Currently investments consist of Certificates of Deposit.

*Custodial Credit Risk - Deposits* - Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a written deposit policy for custodial credit risk, but *Oklahoma Statutes* requires collateral for all uninsured deposits of public trust funds in financial institutions. As of June 30, 2013, the Authority's First National Bank bank balances of \$63,064 were not exposed to custodial credit risk. However, The Authority's Bank of Union bank balances were \$276,978. Of this amount, \$26,978 exceeded the \$250,000 FDIC insurance level. Additional collateral was not obtained resulting in this amount being exposed to custodial credit risk.

**2.B. Capital Assets**

Capital asset activity for the fiscal year ended June 30, 2013 was as follows:

	<u>Balance 6/30/12</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 6/30/13</u>
Non-depreciable assets:				
Construction in progress	\$ -	-	-	\$ -
Land	<u>2,011</u>	-	-	<u>2,011</u>
Total non-depreciable assets	<u>2,011</u>	-	-	<u>2,011</u>
Depreciable assets:				
Buildings and Improvements	50,303	2,400	-	52,703
Gas System and Improvements	705,338	7,851	-	713,189
Gas Line Upgrade	67,185	-	-	67,185
Furniture and Fixtures	4,288	-	1,800	2,488
Vehicles and equipment	<u>54,396</u>	<u>1,500</u>	<u>11,556</u>	<u>44,340</u>
Total depreciable assets	<u>881,510</u>	<u>11,751</u>	<u>13,356</u>	<u>879,905</u>
Less accumulated depreciation:				
Buildings and Improvements	6,249	1,289	-	7,538
Gas System and Improvements	381,789	11,770	-	393,559
Gas Line Upgrade	60,923	642	-	61,565
Furniture and Fixtures	4,288	-	1,800	2,488
Vehicles and equipment	<u>37,520</u>	<u>6,840</u>	<u>11,556</u>	<u>32,804</u>
Total accumulated depreciation	<u>490,769</u>	<u>20,541</u>	<u>13,356</u>	<u>497,954</u>
Net depreciable assets	<u>390,741</u>	<u>(8,790)</u>	-	<u>381,951</u>
Net capital assets	<u>\$ 392,752</u>	<u>\$ (8,790)</u>	<u>\$ -</u>	<u>\$ 383,962</u>

**Minco Gas Authority**  
**Notes To Basic Financial Statements**  
For the Year Ended June 30, 2013

**Note 2 - Detailed Notes on Transaction Classes/Accounts, (continued)**

**2.C. Restricted Assets**

The Authority does not have any restricted assets.

**2.D. Liabilities**

*Meter Deposits* – The Authority collects deposits from customers which are to be refunded or credited to the customer upon termination of the utility service and payment of all charges due and connected with the service. Also, deposits are refunded to homeowners with good payment history for one year. Meter deposit liability at June 30, 2013 was \$42,805.

**2.E. Long-Term Debt**

The District had the following long-term debt(s) outstanding:

Note payable to Minco Schools, payable in annual installments of a variable amount on December 31st of each year. This note was incurred by entering into a Gas Line Extension Agreement with Minco Public Schools on January 1, 2008. This agreement provides that the customer (Minco Schools) pays for the initial cost of the installation of the gas line. At the end of the year, the Authority will pay the customer back a sum of one-half of the preceding year’s customer dollar amount of gas usage until such time as the investment has been returned in full. This note is limited to a ten-year period. In the event the total investment has not been refunded due to lack of gas usage within the said ten-year period, the balance of the investment remaining unpaid will not be reimbursed and shall be deemed a contribution in aid of construction. This is a non-interest-bearing note. As of June 30, 2013, the balance was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Balance Due in 1 year
N/P – Minco Schools	\$ 24,789	-	\$ 1,181	\$ 23,608	\$ 1,100

Note payable to Matt Gore, payable in annual installments of a variable amount on December 31st of each year. This note was incurred by entering into a Gas Line Extension Agreement with Matt Gore on January 24, 2012. This agreement provides that the customer (Matt Gore) pays for the initial cost of the installation of the gas line. At the end of the year, the Authority will pay the customer back a sum of one-half of the preceding year’s customer dollar amount of gas usage until such time as the investment has been returned in full. This note is limited to a ten-year period. In the event the total investment has not been refunded due to lack of gas usage within the said ten-year period, the balance of the investment remaining unpaid will not be reimbursed and shall be deemed a contribution in aid of construction. This is a non-interest-bearing note. As of June 30, 2013, the balance was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Balance Due in 1 year
N/P – Matt Gore	\$ 3,688	-	\$ 58	\$ 3,630	\$ 450

**Minco Gas Authority**  
**Notes To Basic Financial Statements**  
For the Year Ended June 30, 2013

**Note 3 - Other Notes**

**3.A. Prior Period Adjustment**

Certain adjustments were needed to restate the beginning net position of various funds. This restatement is a result of the Authority changing its financial statement presentation from the accrual basis in the prior year to the modified cash basis in the current year. This restatement is also a result of an error in the valuation of inventory in the prior year. The schedule below outlines the adjustments:

	<u>Gas Revenue</u>	<u>Meter</u>
Beginning Net Position (as previously reported)	\$ 602,295	\$ 776
Prior period adjustments for restatement:		
Accounts Receivable	(6,736)	-
Allowance for Doubtful Accounts	2,328	-
Unbilled Receivable	(2,142)	-
Interest Receivable	( 158)	-
Prepaid Insurance	(4,800)	-
Accounts Payable	7,515	-
Compensated Absences	263	-
Prior period adjustments for correction of error:		
Inventory	<u>7,529</u>	<u>-</u>
Beginning Net Position, restated	<u>\$ 606,094</u>	<u>\$ 776</u>

**3.B. Employee Pension Plans**

**Savings Incentive Match Plan for Employees** - On August 1, 1997, the Authority 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 Authority also administers the Simple Plan.

Employee Eligibility Requirements – Eligibility is limited to employees who are reasonably expected to receive at least \$5,000 in compensation for the calendar year or employees who have received at least \$5,000 in compensation during any one calendar year(s) preceding the calendar year.

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 Authority 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: Authority - \$1,494, Employees - \$1,494.

**Minco Gas Authority**  
**Notes To Basic Financial Statements**  
For the Year Ended June 30, 2013

**Note 3 - Other Notes, (continued)**

**3.B. Employee Pension Plans, (continued)**

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

No Withdrawal Restrictions – The Authority 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 Authority 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 Authority will make all contributions on behalf of the employee. The custodian of the Simple Plan is New York Life Investment Management LLC.

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.C. Risk Management**

The Authority 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 and Umbrella Liability** - General liability and umbrella liability are insured through commercial insurance. Risk of loss retained is limited to the excess of insurance liability coverage limits set by the commercial insurance provider.

**Vehicles** - All vehicles are insured through commercial insurance with a deductible of \$500. Risk of loss retained is limited to the excess of insurance liability coverage limits set by the commercial insurance provider.

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

**3.D. Commitments and Contingencies**

**Gas Sales Agreement** - The Authority has a contractual commitment with Clearwater Enterprises, LLC to purchase gas on a month to month basis effective July 1, 2004. The price of the gas is calculated each month by adding \$.07 per MMBtu to the Inside F.E.R.C.'s Gas Market Report first of the month index posting for ONEOK Gas Transportation LLC. The Authority has the option to fix a price for a quantity of gas throughout the term of this agreement at a price that is mutually agreeable to the parties. The Authority did sign an agreement to fix the gas price for the months of October 2006 through March 2007 at the rate of \$7.99 per MMBtu.

**Minco Gas Authority**  
**Notes To Basic Financial Statements**  
For the Year Ended June 30, 2013

**Note 3 - Other Notes, (continued)**

**3.D. Commitments and Contingencies, (continued)**

On June 28, 2007, the Authority signed a new contract with Clearwater Enterprises, LLC to purchase gas on a month to month basis effective July 1, 2007. The price of the gas is calculated each month by adding \$.07 per MMBtu to the Inside F.E.R.C.'s Gas Market Report first of the month index posting for ONEOK Gas Transportation LLC. The Authority has the option to fix a price for a quantity of gas throughout the term of this agreement at a price that is mutually agreeable to the parties. The Authority did sign an agreement to fix the gas price for the months of October 2011 through March 2012 at the rate of \$4.25 per MMBtu.

**Gas Transportation** – The transportation of wholesale natural gas is available under the Economic Impact of Tariff 2000. Tariff 2000 applies to gas utility companies or systems which purchase their gas transportation requirements from Oklahoma Natural Gas Company for redelivery and distribution to their customers and whose annual consumption was greater than 30,000 Dth but less than 450,000 Dth during the previous twelve month period from October 1 through the following September. The rate schedule is adjusted every twelve months according to the consumption.

**3.E. Related Party Transactions**

The Authority contracts with trustee, Johnny Verser, for welding services. There were no services actually provided by Verser Welding for the year ended June 30, 2013. The welding services contract was competitively bid and had there been any expenses, the expenses to the trustee would be publicly disclosed during the year.

**3.F. Economic Dependency**

**Natural Gas Supplier** - The Authority purchases all of its natural gas in accordance with their current contract. The current contract is with Clearwater Enterprises, LLC.

## *Supplemental Information*

**MINCO GAS AUTHORITY**  
**Combining Statement of Net Position**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2013**

	<u>Gas Revenue</u>	<u>Meter</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 168,584	\$ 2,554	\$ 171,138
Restricted cash and cash equivalents	-	2,805	2,805
Investments	125,000	-	125,000
Restricted investments	-	40,000	40,000
Inventory	13,157	-	13,157
<i>Total Current Assets</i>	<u>306,741</u>	<u>45,359</u>	<u>352,100</u>
<b>Non Current Assets</b>			
Land and other non-depreciable assets	2,011	-	2,011
Other capital assets, net of depreciation	381,950	-	381,950
<i>Total Non Current Assets</i>	<u>383,961</u>	<u>-</u>	<u>383,961</u>
 <i>Total Assets</i>	 <u>690,702</u>	 <u>45,359</u>	 <u>736,061</u>
 <b><u>LIABILITIES</u></b>			
<b>Current Liabilities</b>			
Current Portion Long Term Debt	1,550	-	1,550
<i>Total Current Liabilities</i>	<u>1,550</u>	<u>-</u>	<u>1,550</u>
<b>Non Current Liabilities</b>			
Refundable deposits	-	42,805	42,805
Long Term Debt	25,688	-	25,688
<i>Total Non Current Liabilities</i>	<u>25,688</u>	<u>42,805</u>	<u>68,493</u>
 <i>Total Liabilities</i>	 <u>27,238</u>	 <u>42,805</u>	 <u>70,043</u>
 <b><u>NET POSITION</u></b>			
Net Investment in Capital Assets	356,723	-	356,723
Restricted	-	-	-
Unrestricted	306,741	2,554	309,295
 <i>Total Net Position</i>	 <u>\$ 663,464</u>	 <u>\$ 2,554</u>	 <u>\$ 666,018</u>

**MINCO GAS AUTHORITY**  
**Combining Statement of Revenues, Expenses, and Changes in Net Position**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2013**

	<u>Gas Revenue</u>	<u>Meter</u>	<u>Total</u>
<b>Operating Revenue</b>			
Gas charges	\$ 349,365	\$ -	\$ 349,365
Tap Fees	800	-	800
Miscellaneous	352	3,332	3,684
<i>Total Operating Revenue</i>	<u>350,517</u>	<u>3,332</u>	<u>353,849</u>
<b>Operating Expenses</b>			
Cost of gas sold	153,460	-	153,460
Audit and legal fees	4,095	-	4,095
Customer Reimbursement	22	-	22
Drug and alcohol testing	644	-	644
Equipment	2,098	-	2,098
Fees and dues	2,906	-	2,906
Insurance-employee health	6,995	-	6,995
Insurance-general	9,687	-	9,687
Maintenance	7,927	-	7,927
Postage/Office supplies	4,839	-	4,839
Retirement	2,987	-	2,987
Returned checks	511	-	511
Salaries and payroll taxes	64,690	-	64,690
Sales tax	11,655	-	11,655
Truck expense	3,012	-	3,012
Trustee expense	510	-	510
Utilities	4,474	-	4,474
Depreciation	20,541	-	20,541
<i>Total Operating Expenses</i>	<u>301,053</u>	<u>-</u>	<u>301,053</u>
<i>Operating Income (Loss)</i>	<u>49,464</u>	<u>3,332</u>	<u>52,796</u>
<b>Non Operating Revenues (Expense)</b>			
Investment income	2,889	13	2,902
Building rent	1,950	-	1,950
Contributions - Donated Asset	1,500	-	1,500
<i>Total Non Operating Revenues (Expenses)</i>	<u>6,339</u>	<u>13</u>	<u>6,352</u>
<i>Income (Loss) Before Transfers</i>	55,803	3,345	59,148
Transfers In (Out)	1,566	(1,566)	-
<i>Change in Net Position</i>	57,369	1,779	59,148
<i>Net Position - Beginning of Year, restated</i>	<u>606,094</u>	<u>776</u>	<u>606,870</u>
<i>Net Position - End of Year</i>	<u>\$ 663,463</u>	<u>\$ 2,555</u>	<u>\$ 666,018</u>

**MINCO GAS AUTHORITY**  
**Combining Statement of Cash Flows**  
**- Modified Cash Basis -**  
**For the Year Ended June 30, 2013**

	<b>Gas Revenue</b>	<b>Meter</b>	<b>Total</b>
<b>Cash flows from operating activities</b>			
Receipts from customers	\$ 350,517	\$ 3,332	\$ 353,849
Payments to employees	(64,690)	-	(64,690)
Payments to suppliers	(215,823)	-	(215,823)
Other receipts (payments)	(2,425)	(167)	(2,592)
<i>Net cash provided by (used for) operating activities</i>	<u>67,579</u>	<u>3,165</u>	<u>70,744</u>
<b>Cash flows from noncapital financing activities</b>			
Transfers to other funds	-	(1,565)	(1,565)
Transfers from other funds	1,565	-	1,565
<i>Net cash provided by (used for) noncapital financing activities</i>	<u>1,565</u>	<u>(1,565)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>			
Note payments	(1,239)	-	(1,239)
Purchase of capital assets	(10,251)	-	(10,251)
<i>Net cash provided by (used for) capital and related financing activities</i>	<u>(11,490)</u>	<u>-</u>	<u>(11,490)</u>
<b>Cash flows from investing activities</b>			
Interest received	2,889	13	2,902
Building rent	1,950	-	1,950
<i>Net cash provided by (used for) investing activities</i>	<u>4,839</u>	<u>13</u>	<u>4,852</u>
<i>Net increase (decrease) in cash and cash equivalents</i>	62,493	1,613	64,106
<i>Cash and cash equivalents at beginning of year</i>	106,090	3,747	109,837
<i>Cash and cash equivalents at end of year</i>	<u>\$ 168,583</u>	<u>\$ 5,360</u>	<u>\$ 173,943</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>			
Operating income (loss)	49,464	3,332	52,796
Adjustment to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	20,541	-	20,541
Change in inventory	(2,426)	-	(2,426)
Change in refundable deposits	-	(167)	(167)
<i>Net cash provided by (used for) operating activities</i>	<u>\$ 67,579</u>	<u>\$ 3,165</u>	<u>\$ 70,744</u>

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

To the Board of Trustees of  
Minco Gas Authority  
Minco, Oklahoma

We have audited, in accordance with the 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, the accompanying modified cash basis financial statements of the Minco Gas Authority, Minco, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated, September 12, 2013.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Minco Gas Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. 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 deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. 13-01 and 13-02.

### **Compliance and Other Matters**

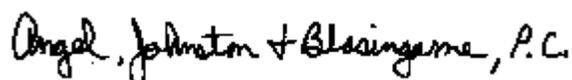
As part of obtaining reasonable assurance about whether Minco Gas Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

### **Minco Gas Authority's Response to Findings**

Minco Gas Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with the *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Angel, Johnston & Blasingame, P.C.  
September 12, 2013

**Minco Gas Authority**  
**Minco, Oklahoma**  
Schedule of Findings and Responses  
For the Year Ended June 30, 2013

*13-01 Criteria* – The segregation of duties and responsibilities between different individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the entity’s assets and ensure accurate financial reporting.

*Condition* – Presently the same individual performs all accounting functions; receives utility service related cash payments and is responsible for service billing and adjustment, also balances the daily cash drawer, posts payments to customer accounts, makes bank deposits, writes checks and reconciles the monthly bank statements and prepares monthly financial summaries.

*Cause* – The entity’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

*Effect or Potential Effect* – Without sufficient segregation of duties, the risk significantly increases that errors and fraud related to the accounting functions, including misappropriation of assets, could occur and not be detected within a timely basis.

*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.

*13-02 Criteria* – Oklahoma Statutes Title 62, Section 511-517 & 348.1 requires deposits of public funds not exceed the federal insurance limit unless secured by acceptable collateral. Collateral, valued at market value, is required to secure uninsured deposits and includes a requirement that the treasurer review and determine the market value of the pledged collateral not less than quarterly.

*Condition* – The Authority’s funds held at Bank of Union exceeded FDIC coverage by \$26,978. Collateral coverage was not obtained, exposing this balance to custodial credit risk.

*Cause* – Lack of monitoring through proper procedures and controls.

*Effect or Potential Effect* – Non-compliance with Oklahoma Statutes and a potential for custodial credit risk.

*Recommendation* – The Authority should obtain a written collateral agreement with the bank and the Treasurer should review the sufficiency of collateral pledged as needed, but not less than on a quarterly basis.

*Management response* – Management agrees.

**Minco Gas Authority**  
**Minco, Oklahoma**  
Summary of Prior Year Findings  
June 30, 2013

12 - 01 **Finding** – A good system of internal control provides for a proper segregation of the accounting functions. The Authority has a small number of employees that perform the duties that would normally be divided among a large number of employees.

**Disposition** – See current year finding 13-01.