

**CITY OF MCLOUD, OKLAHOMA
FINANCIAL STATEMENTS
FOR THE YEAR ENDING JUNE 30, 2011**

WITH INDEPENDENT AUDITOR'S REPORT

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Report of Independent Accountants

To the City Council
City of McLoud, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of McLoud, 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 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of McLoud, Oklahoma, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i through iii, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has elected to not present the management discussion and analysis, a budget to actual comparison and the employee pension and retirement plan information as is required by generally accepted accounting principles in the United States of America.



June 6, 2012

City of McLoud, Oklahoma
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Totals
ASSETS			
Current Assets:			
Cash in Bank - Unrestricted	\$ 139,759.12	\$ 644,799.28	\$ 784,558.40
Cash in Bank - Restricted	119,882.19	52,545.23	172,427.42
Taxes and Utility Billing Receivables	119,599.35	99,242.71	218,842.06
Total Current Assets	<u>379,240.66</u>	<u>796,587.22</u>	<u>1,175,827.88</u>
Noncurrent Assets:			
Capital Assets, net	841,795.24	5,777,121.77	6,618,917.01
Total Noncurrent Assets	<u>841,795.24</u>	<u>5,777,121.77</u>	<u>6,618,917.01</u>
TOTAL ASSETS	<u>\$ 1,221,035.90</u>	<u>\$ 6,573,708.99</u>	<u>\$ 7,794,744.89</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	\$ 852.78	\$ 2,942.41	\$ 3,795.19
Meter Deposits	-	40,431.30	40,431.30
Compensated Absences	37,913.67	9,584.95	47,498.62
Current Portion of Long Term Debt	-	210,520.76	210,520.76
Total Current Liabilities	<u>38,766.45</u>	<u>263,479.42</u>	<u>302,245.87</u>
Notes Payable	-	4,497,749.69	4,497,749.69
Total Long Term Liabilities	<u>-</u>	<u>4,497,749.69</u>	<u>4,497,749.69</u>
TOTAL LIABILITIES	<u>38,766.45</u>	<u>4,761,229.11</u>	<u>4,799,995.56</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	841,795.24	1,068,851.32	1,910,646.56
Net Assets - Unrestricted	340,474.21	743,628.56	1,084,102.77
TOTAL NET ASSETS	<u>1,182,269.45</u>	<u>1,812,479.88</u>	<u>2,994,749.33</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,221,035.90</u>	<u>\$ 6,573,708.99</u>	<u>\$ 7,794,744.89</u>

The accompanying footnotes are an integral part of these financial statements.

City of McLoud, Oklahoma
Statement of Activities
For the Year Ending June 30, 2011

Functions/Programs	Program Revenues				Net (expense) revenue and		Total
	Expenses	Charges for Services	Capital Grants	Changes in net assets		Total	
				Governmental Activities	Business-Type Activities		
Primary Government							
Governmental Activities							
Administrative Department	114,165.25	-	-	(114,165.25)	-	(114,165.25)	
Town Clerk	97,226.26	17,715.39	-	(79,510.87)	-	(79,510.87)	
Police Department	527,775.64	194,114.66	24,510.15	(309,150.83)	-	(309,150.83)	
Fire Department	221,145.25	6,475.70	4,397.72	(210,271.83)	-	(210,271.83)	
General Maintenance	60,261.99	-	-	(60,261.99)	-	(60,261.99)	
Court Department	9,660.00	-	-	(9,660.00)	-	(9,660.00)	
Street and Alley	216,312.94	245.65	6,586.01	(209,481.28)	-	(209,481.28)	
Park Department	25,413.09	2,275.00	-	(23,138.09)	-	(23,138.09)	
Lake	120,333.09	99,925.24	-	(20,407.85)	-	(20,407.85)	
Cemetery	499.09	-	-	(499.09)	-	(499.09)	
Total Governmental Activities	1,392,792.60	320,751.64	35,493.88	(1,036,547.08)	-	(1,036,547.08)	
Business-Type Activities							
Water Department	219,644.44	463,948.47	-	-	244,304.03	244,304.03	
Sewer Department	151,883.40	304,046.13	-	-	152,162.73	152,162.73	
Waste Water Treatment Plant	410,723.99	-	-	-	(410,723.99)	(410,723.99)	
Garbage Department	169,661.15	220,263.24	-	-	50,602.09	50,602.09	
General and Administrative	4,528.70	32,099.55	7,190.00	-	34,760.85	34,760.85	
Economic Development	92,741.70	36,628.32	76,931.13	-	20,817.75	20,817.75	
Total Business-Type Activities	1,049,183.38	1,056,985.71	84,121.13	-	91,923.46	91,923.46	
Total Primary Government	\$ 2,441,975.98	\$ 1,377,737.35	\$ 119,615.01	\$ (1,036,547.08)	\$ 91,923.46	\$ (944,623.62)	
General Revenues							
Sales Taxes				655,442.25	-	655,442.25	
Other Taxes				208,480.27	-	208,480.27	
Interest Income				679.55	2,849.99	3,529.54	
Total General Government Revenue				864,602.07	2,849.99	867,452.06	
Transfer In/Out				160,000.00	(160,000.00)	-	
Change in Net Assets				(11,945.01)	(65,226.55)	(77,171.56)	
Net Assets Beginning				1,194,214.46	1,877,706.43	3,071,920.89	
Net Assets Ending				\$ 1,182,269.45	\$ 1,812,479.88	\$ 2,994,749.33	

The accompanying footnotes are an integral part of these financial statements.

**City of McLoud, Oklahoma
Governmental Funds
Balance Sheet
June 30, 2011**

	General Fund	Revenue Fund	Total Governmental Fund
ASSETS			
Cash in Bank - Unrestricted	56,796.50	82,962.62	139,759.12
Cash - Restricted	119,882.19	-	119,882.19
Taxes and Utility Billing Receivable	<u>101,264.20</u>	<u>18,335.15</u>	<u>119,599.35</u>
Total Assets	<u><u>\$ 277,942.89</u></u>	<u><u>\$ 101,297.77</u></u>	<u><u>\$ 379,240.66</u></u>
LIABILITIES			
Accounts Payable	741.78	111.00	852.78
Accrued Compensated Absences	<u>33,454.25</u>	<u>4,459.42</u>	<u>37,913.67</u>
Total Liabilities	34,196.03	4,570.42	38,766.45
NET ASSETS			
Unrestricted	123,864.67	-	123,864.67
Assigned	<u>119,882.19</u>	<u>96,727.35</u>	<u>216,609.54</u>
TOTAL NET ASSETS	<u><u>243,746.86</u></u>	<u><u>96,727.35</u></u>	<u><u>340,474.21</u></u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 277,942.89</u></u>	<u><u>\$ 101,297.77</u></u>	<u><u>\$ 379,240.66</u></u>

*Reconciliation of Total Governmental Fund Balance to
Net Assets of Governmental Activities*

Total Governmental Fund Balances	\$ 340,474.21
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital Assets used in governmental activities are not financial resources and therefore are not reported in the funds.	<u>841,795.24</u>
Net Assets of Governmental Activities	<u><u>\$ 1,182,269.45</u></u>

City of McLoud, Oklahoma
Governmental Funds
Statement of Revenues, Expenditures and Changes in Net Assets
For the Year Ending June 30, 2011

	General Fund	Revenue Funds	Total Governmental Funds
Revenues			
Taxes	617,803.25	246,119.27	\$ 863,922.52
Charges for Services	133,591.33	-	133,591.33
Fines	149,078.14	-	149,078.14
Grants	28,907.87	6,586.01	35,493.88
Interest	288.32	391.23	679.55
Other Revenues	<u>37,836.52</u>	<u>245.65</u>	<u>38,082.17</u>
Total Revenues	<u>967,505.43</u>	<u>253,342.16</u>	<u>1,220,847.59</u>
Expenditures			
Administrative Department	114,165.25	-	114,165.25
Town Clerk	97,226.26	-	97,226.26
Police Department	512,010.93	-	512,010.93
Court Department	9,660.00	-	9,660.00
Fire Department	191,842.25	-	191,842.25
General Maintenance	12,958.66	-	12,958.66
Parks Department	25,413.09	-	25,413.09
Cemetery	-	499.09	499.09
Lake	120,333.09	-	120,333.09
Street and Alley	-	<u>216,312.94</u>	<u>216,312.94</u>
Total Expenditures	<u>1,083,609.53</u>	<u>216,812.03</u>	<u>1,300,421.56</u>
Excess revenues over (under) expenditures	(116,104.10)	36,530.13	(79,573.97)
Transfers In/Out	<u>160,000.00</u>	<u>-</u>	<u>160,000.00</u>
Excess revenue over (under) expenditures after transfer	43,895.90	36,530.13	80,426.03
Net Assets at beginning of year	<u>199,850.96</u>	<u>60,197.22</u>	<u>260,048.18</u>
Net Assets at end of year	<u>\$ 243,746.86</u>	<u>\$ 96,727.35</u>	<u>\$ 340,474.21</u>

***Reconciliation of Fund Financial Statements to
Governmental Wide Financial Statements***

Change in Net Assets, Fund Financial Statements	80,426.03
Depreciation recorded in the governmental wide financial statements but not recorded in the fund financial statements	(118,871.04)
Expenses recorded in the fund financial statements but capitalized in the governmental wide financial statements	<u>26,500.00</u>
Change in Net Assets per the Governmental Wide Financial Statements	<u>\$ (11,945.01)</u>

**City of McLoud, Oklahoma
Proprietary Fund
Statement of Net Assets
June 30, 2011**

	McLoud Public Works Authority	McLoud Economic Development Authority	Total Proprietary Funds
ASSETS			
Current Assets:			
Cash in Bank- Unrestricted	\$ 303,076.39	\$ 341,722.89	\$ 644,799.28
Cash in Bank - Restricted	52,545.23	-	52,545.23
Taxes and Utility Billing Receivables	99,242.71	-	99,242.71
Total Current Assets	<u>454,864.33</u>	<u>341,722.89</u>	<u>796,587.22</u>
Noncurrent Assets			
Capital Assets, net	5,201,244.62	575,877.15	5,777,121.77
Total Noncurrent Assets	<u>5,201,244.62</u>	<u>575,877.15</u>	<u>5,777,121.77</u>
TOTAL ASSETS	<u>\$ 5,656,108.95</u>	<u>\$ 917,600.04</u>	<u>\$ 6,573,708.99</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	62.00	2,880.41	2,942.41
Meter Deposits	40,431.30	-	40,431.30
Note Payable	210,520.76	-	210,520.76
Compensated Absences	9,584.95	-	9,584.95
Total Current Liabilities	<u>260,599.01</u>	<u>2,880.41</u>	<u>263,479.42</u>
Long Term Liabilities			
Note Payable	4,497,749.69	-	4,497,749.69
Total Long Term Liabilities	<u>4,497,749.69</u>	<u>-</u>	<u>4,497,749.69</u>
TOTAL LIABILITIES	<u>4,758,348.70</u>	<u>2,880.41</u>	<u>4,761,229.11</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	492,974.17	575,877.15	1,068,851.32
Net Assets - Unrestricted	404,786.08	338,842.48	743,628.56
TOTAL NET ASSETS	<u>897,760.25</u>	<u>914,719.63</u>	<u>1,812,479.88</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,656,108.95</u>	<u>\$ 917,600.04</u>	<u>\$ 6,573,708.99</u>

City of McLoud, Oklahoma
Proprietary Fund
Statement of Revenues, Expenditures and Changes in Net Assets
For the Year Ending June 30, 2011

	McLoud Public Works Authority	McLoud Economic Development Authority	Total Proprietary Funds
Operating Revenues:			
Water Sales	\$ 463,948.47	\$ -	\$ 463,948.47
Sewer Fees	304,046.13	-	304,046.13
Garbage Fees	220,263.24	-	220,263.24
Grants	7,190.00	76,931.13	84,121.13
Miscellaneous Revenues	41,726.05	27,001.82	68,727.87
Total Operating Revenues	<u>1,037,173.89</u>	<u>103,932.95</u>	<u>1,141,106.84</u>
Operating Expenditures:			
Water Department	219,644.44	-	219,644.44
Sewer Department	151,883.40	-	151,883.40
Waste Water Treatment Plant	410,723.99	-	410,723.99
Garbage Department	169,661.15	-	169,661.15
General and Administrative	4,528.70	-	4,528.70
Economic Development	-	92,741.70	92,741.70
Total Operating Expenditures	<u>956,441.68</u>	<u>92,741.70</u>	<u>1,049,183.38</u>
Excess Revenues over Expenditures	80,732.21	11,191.25	91,923.46
Non-operating Revenues (Expenditures)			
Transfer in (out)	(106,400.00)	(53,600.00)	(160,000.00)
Interest Income	1,303.35	1,546.64	2,849.99
Net Non-operating Revenues (Expenditures)	<u>(105,096.65)</u>	<u>(52,053.36)</u>	<u>(157,150.01)</u>
Excess Revenues over (under) after Non-Operating	(24,364.44)	(40,862.11)	(65,226.55)
Net Assets at beginning of year	<u>922,124.69</u>	<u>955,581.74</u>	<u>1,877,706.43</u>
Net Assets at end of year	<u>\$ 897,760.25</u>	<u>\$ 914,719.63</u>	<u>\$ 1,812,479.88</u>

The accompanying footnotes are an integral part of these financial statements.

**City of McLoud, Oklahoma
Proprietary Fund
Statement of Cash Flows
For the Year Ending June 30, 2011**

	McLoud Public Works Authority	McLoud Economic Development Authority	Total Proprietary Funds
Cash flows from operating activities			
Receipts from customers	1,016,711.04	27,001.82	1,043,712.86
Grants Received	7,190.00	76,931.13	(84,121.13)
Interest Income	1,303.35	1,546.64	2,849.99
Transfers to other funds	(106,400.00)	(53,600.00)	(160,000.00)
Payments to employees	(184,769.26)	-	(184,769.26)
Payments to suppliers	(551,754.99)	(61,975.95)	(613,730.94)
Net cash provided by operating activities	<u>182,280.14</u>	<u>(10,096.36)</u>	<u>172,183.78</u>
Cash flows from capital and related financing activities			
Change in meter deposits	(547.29)	-	(547.29)
Change in Fixed Assets	-	(122,659.59)	(122,659.59)
Payments on Long Term Debt	(207,712.82)	-	(207,712.82)
Net cash flows from capital and related financing activities	<u>(208,260.11)</u>	<u>(122,659.59)</u>	<u>(330,919.70)</u>
Net increase (decrease) in cash	(25,979.97)	(132,755.95)	(158,735.92)
Cash, Beginning of the Year	381,601.59	474,478.84	856,080.43
Cash, End of the Year	<u>\$ 355,621.62</u>	<u>\$ 341,722.89</u>	<u>\$ 697,344.51</u>

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

Change in Net Assets	(24,364.44)	(40,862.11)	(65,226.55)
Adjustments to reconcile change in net assets to net cash provided			
Depreciation	217,022.19	27,885.34	244,907.53
(Increase) decrease in utility receivable	(13,272.85)	-	(13,272.85)
Increase (decrease) in compensated absences	3,683.47	-	3,683.47
Increase (decrease) in accounts payable	(788.23)	2,880.41	2,092.18
Net cash provided by operating activities	<u>\$ 182,280.14</u>	<u>\$ (10,096.36)</u>	<u>\$ 172,183.78</u>
Cash Reconciliation			
Cash in Bank - Unrestricted	\$ 303,076.39	\$ 341,722.89	\$ 644,799.28
Cash in Bank - Restricted	52,545.23	-	52,545.23
Total Cash	<u>\$ 355,621.62</u>	<u>\$ 341,722.89</u>	<u>\$ 697,344.51</u>

City of McLoud, Oklahoma
Notes to the Basic Financial Statements For
the Year Ended June 30, 2011

Note 1-Summary of Significant Accounting Policies

Financial Reporting Entity

The City of McLoud, Oklahoma is a statutory Council-Manager City Government under Oklahoma Statutes. The City provides the following services: public safety, streets and highways, sanitation, public improvements, utilities and general administrative services.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the City's operations include how the budget is adopted, whether debt is secured by general obligation of the City, the City's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the City's reporting entity. As of June 30, 2011, the City had only two component units, the McLoud Public Works Authority and the McLoud Economic Development Authority.

Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are grouped into two governmental fund types, general funds and special revenue funds. Proprietary funds include enterprise funds. As of June 30, 2011, the City had governmental funds of general, street and alley fund, cemetery fund, fixed asset account group and long term debt account group. The proprietary funds consisted of the McLoud Public Works Authority and McLoud Economic Development Authority.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service,

program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursement due for federally funded projects is accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services and miscellaneous income are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decrease in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocation of costs, such as depreciation, are recorded in proprietary funds. The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable then Government Accounting Standards Board

pronouncements are used. Operating revenues are defined as cash flows derived from the sales of water, sewer and garbage services, or as a benefit the economic development activity.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less for the date of acquisition. Restricted cash consists of meter deposits.

Infrastructure

In accordance with GASB 34, the City of McLoud is not required to retroactively record infrastructure assets. Infrastructure assets will be recorded and depreciated in the future.

Transfers

Transfers between funds are made with the approval of the City Council for smooth financial operation of the City and to allocate resources where needed.

Budget

In accordance with Oklahoma Statutes, Title 68, Section 3002, the City Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

Risk Management

Significant losses are covered by commercial insurance for all City operations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 2-Deposits with Financial Institutions

The accounts of the City are required by state law to be secured by collateral pledged by the financial institution and/or FDIC insurance. The City of McLoud is considered a separate entity from the McLoud Public Works Authority for FDIC deposit insurance.

In accordance with GASB No. 3, deposits are to be classified into the following three categories:

1. Insured or collateralized with securities held by the entity or by its agent or in the entity's name (Referred to as category 1)
2. Collateralized with securities held by pledging financial institution's trust department or agent in the entity's name. (Referred to as category 2)
3. Uncollateralized, including any bank balance that is collateralized with securities held by the pledging institution, or by its trust department or agent but not in the entity's name. (Referred to as category 3)

All of the City of McLoud's government and enterprise fund cash and investment accounts would be considered as category 1 up to its FDIC limits of \$250,000 for the governmental funds and \$250,000 for the McLoud Public Works Authority and \$250,000 for the McLoud Economic Development Authority. The remaining funds would be category 3.

Note 3-Capital Assets and Depreciation

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

Governmental Funds

	Beginning Balance	Increases	Decreases	Ending Balance
Land & Buildings	1,573,286	26,500	-	1,599,786
Fixtures & Equipment	1,500,162	-	-	1,500,162
Total	3,073,448			3,099,948
Accumulated Depreciation	(2,139,281)	(118,871)	-	(2,258,152)
Net Assets	<u>934,167</u>			<u>841,796</u>

McLoud Public Works Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Land & Buildings	1,158,922	122,660	-	1,281,582
Waste Water Treatment Plant	6,070,866	-	-	6,070,866
Fixtures & Equipment	284,603	-	-	284,603
Total	7,514,391			7,637,051
Accumulated Depreciation	(1,615,021)	(244,901)	-	(1,859,922)
Net Assets	<u>5,899,370</u>			<u>5,777,128</u>

As of June 30, 2011, the governmental and proprietary funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost. Depreciation of \$244,901 for the McLoud PWA was recorded as follows: \$16,361 for the water department, \$16,361 for the sewer department, and \$184,299 for the waste water treatment plant. Depreciation of \$118,871 for the governmental funds was recorded as follows: general government \$47,303 police department \$15,765 and \$55,803 for the fire department. Depreciation of \$27,885 for the McLoud EDA was charged to economic development.

Note 4 - Notes Payable

McCloud Public Works Authority

During the year ending June 30, 2006, the McCloud Public Works Authority entered into an agreement with the Oklahoma Water Resources Board for a line of credit of \$5,315,000. The obligation carries an interest rate of 3.1 percent annually. Interest and principal is to be paid semi-annually starting one year after the completion of the project which occurred on September 15, 2008. The obligation is to be paid off on March 15, 2028. The City paid \$207,712 in principal and \$124,057 in interest on this obligation for the year ending June 30, 2011. Principal and interest required to amortize this obligation is as follows:

	Principal	Interest		
2011/2012	214,098	144,310	Balance, Beginning of Year	\$ 4,915,983
2012/2013	220,787	137,621	Principal Paid	(207,712)
2013/2014	227,684	130,724	Balance, End of Year	<u>\$ 4,708,271</u>
2014/2015	234,797	123,611		
2015/2016	242,132	116,276		
2016/2021	1,328,963	463,077		
2021/2026	1,549,931	242,110		
2026/2028	689,879	26,937		
	<u>4,708,271</u>	<u>1,384,667</u>		

Note 5 - Volunteer Firefighter Pension Plan

The City participates in the Oklahoma State Firefighters Pension and Retirement system which is a defined contribution plan applying only to the City's volunteer firefighters. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later. Contributions are made by the City at the rate of \$60 per volunteer firefighter per year. The total contribution for 2010/2011 was \$1,620 and covered 27 volunteers.

Note 6 - Defined Benefit Pension Plan

Plan Description: The City of McCloud contributes to the Oklahoma Municipal Retirement Fund, (the Fund), a cost-sharing multiple-employer defined benefit pension plan administered by the Trust Department of BankOne of Oklahoma City. The Fund provides retirement, death and disability benefits to plan members who are regular full-time employees of participating municipalities, except for employees covered under other retirement plans. The authority to establish and amend benefit provisions to the Fund rests with the Fund's board of directors. The Oklahoma Municipal Retirement Fund issues a publicly available financial report that includes financial statements and required supplementary information for the Fund, including 10 year historical information. That report may be obtained from the Fund administrator, Nation's Bank Trust Department.

Funding Policy — Plan employers are required to contribute 6.78% of gross monthly salary and employees 2.25% of gross salary. These rates are actuarially determined. These rates may be amended by the Fund's Board of Directors. The City's contributions to the Fund for the year ending June 30, 2011 were \$32,353.

The employees' portion was \$10,737. Total covered payroll was \$375,471. These amounts were equal to the required contributions.

The City also participates in the firefighters' pension fund. The City contributes 13% to the fund for each employee and the employee matches this at the rate of 8%. The employer's contribution for the year ending June 30, 2011 was \$7,889 and the employee's portion was \$4,855. Covered payroll was \$60,683.

Note 7 – Subsequent Events

Subsequent events have been evaluated through June 6, 2012, which is the date the financial statements were issued.

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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 City Council
City of McLoud, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of McLoud, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the City of McLoud, Oklahoma's basic financial statements and have issued our report thereon dated June 6, 2012. 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 McLoud, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of McLoud, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of McLoud, Oklahoma's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of McLoud, Oklahoma'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.

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

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

Casey J. Russell CPA, Inc.

Casey J. Russell CPA, Inc.
Oklahoma City, OK
June 6, 2012

Schedule of Current Findings and Responses

No Current Year Findings
