
THE CITY OF MCLLOUD

**(Including the McLoud Public Works Authority; and the McLoud Economic
Development Authority)**

FINANCIAL STATEMENTS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2015

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Independent Auditor's Report

To the City Council
City of McLoud, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash-basis 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, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town'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 1C3a. This includes determining that the modified cash-basis of accounting is an acceptable basis for the 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 entity'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 entity'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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash-basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of McLoud, as of June 30, 2015, and the respective changes in modified cash-basis financial position, and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules of expenditures of federal and state awards on pages 21 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 19, 2016, on our consideration of the City of McLoud'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 City of McLoud's internal control over financial reporting and compliance.

Basis of Accounting

We draw attention to Note 1C3a 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 opinions are not modified with the respect to this matter.



Oklahoma City, Oklahoma
September 19, 2016

THE CITY OF MCLLOUD
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2015

	Governmental Activities	Business-type Activities	Total 2015
ASSETS			
Current assets:			
Cash and demand deposits	423,001	467,768	890,769
Restricted cash and investments	156,472	65,792	222,264
Accounts receivable	57,783	0	57,783
Internal balances	11,924	(11,924)	0
Total current assets	649,180	521,636	1,170,816
Noncurrent assets:			
Capital assets:			
Depreciable capital assets	4,332,409	7,343,861	11,676,270
Accumulated depreciation	(2,472,422)	(2,682,836)	(5,155,258)
Construction in progress	4,100	0	4,100
Land	0	58,465	58,465
Net capital assets	1,864,087	4,719,490	6,583,577
Total assets	2,513,267	5,241,126	7,754,393
LIABILITIES			
Current liabilities:			
Current portion of debt	26,994	250,839	277,833
Noncurrent liabilities:			
Refundable deposits	0	46,035	46,035
Debt, less current portion	70,721	3,552,563	3,623,284
Total noncurrent liabilities	70,721	3,598,598	3,669,319
Total liabilities	97,715	3,849,437	3,947,152
NET POSITION			
Net investment in capital assets	1,766,372	916,088	2,682,460
Restricted for:			
Fire department	150,796	0	150,796
Veterans park	5,676	0	5,676
Streets	156,695	0	156,695
Cemetery	12,695	0	12,695
Capital improvements	99,364	0	99,364
Unrestricted	223,954	475,601	699,555
TOTAL NET POSITION	\$2,415,552	\$1,391,689	\$3,807,241

The accompanying notes are an integral part of these financial statements

**THE CITY OF MCLOUD
 BALANCE SHEET - MODIFIED CASH BASIS
 GOVERNMENTAL FUNDS
 JUNE 30, 2015**

	General Fund	Street Fund	Other Funds	Total 2015
ASSETS				
Cash and demand deposits	201,545	109,336	112,120	423,001
Restricted cash and investments	156,472	0	0	156,472
Accounts receivable	57,783	0	0	57,783
Due from other funds	28,305	47,359	0	75,664
Total assets	444,105	156,695	112,120	712,920
LIABILITIES				
Due to other funds	63,679	0	61	63,740
FUND BALANCE				
Restricted for:				
Fire department	150,796	0	0	150,796
Veterans park	5,676	0	0	5,676
Streets	0	156,695	0	156,695
Cemetery	0	0	12,695	12,695
Committed for:				
Capital improvements	0	0	99,364	99,364
Unrestricted				
Unassigned	223,954	0	0	223,954
Total fund balance	380,426	156,695	112,059	649,180
TOTAL LIABILITIES AND FUND BALANCE	444,105	156,695	112,120	712,920
Reconciliation of general fund balance to net position of governmental activities:				
Fund balance	380,426	156,695	112,059	649,180
Capital assets	2,970,868	1,365,641	0	4,336,509
Accumulated depreciation	(2,065,062)	(407,360)	0	(2,472,422)
Note payable	(34,580)	(63,135)	0	(97,715)
Net position	\$1,251,652	\$1,051,841	\$112,059	\$2,415,552

The accompanying notes are an integral part of these financial statements

**THE CITY OF MCLLOUD
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	General Fund	Street Fund	Other Funds	Total 2015
REVENUES				
Sales and use taxes	449,562	184,269	0	633,831
Restricted sales tax	184,269	0	0	184,269
Franchise taxes	97,531	0	0	97,531
Intergovernmental	58,264	44,980	0	103,244
Grants	19,484	235,000	0	254,484
Fines and forfeitures	208,362	0	0	208,362
Licenses and permits	42,383	0	0	42,383
Sales and services	51,624	0	784	52,408
Donations	21,066	0	10,012	31,078
Other revenues	49,270	8,650	10	57,930
TOTAL REVENUES	1,181,815	472,899	10,806	1,665,520
EXPENDITURES				
Council-manager	65,850	0	0	65,850
Clerk-treasurer-court	175,025	0	0	175,025
Fire	186,533	0	0	186,533
Police	515,712	0	0	515,712
Animal control	1,764	0	0	1,764
Parks and recreation	81,414	0	0	81,414
Lake	89,610	0	0	89,610
Streets	0	227,138	0	227,138
Cemetery	0	0	55	55
Capital improvements	0	0	412	412
Debt service	0	17,560	0	17,560
Capital outlay	83,554	266,947	0	350,501
TOTAL EXPENDITURES	1,199,462	511,645	467	1,711,574
REVENUES OVER (UNDER) EXPENDITURES	(17,647)	(38,746)	10,339	(46,054)
OTHER FINANCING SOURCES (USES)				
Loan proceeds	34,580	0	0	34,580
Interfund transfers	150,000	0	0	150,000
NET OTHER FINANCING SOURCES (USES)	184,580	0	0	184,580
NET CHANGE IN FUND BALANCES	166,933	(38,746)	10,339	138,526
BEGINNING FUND BALANCE	178,457	195,441	101,720	475,618
Prior period adjustments	35,036	0	0	35,036
ENDING FUND BALANCE	\$380,426	\$156,695	\$112,059	\$649,180
Reconciliation of the change in the general fund balance to the change in net position of governmental activities:				
Net change in fund balances - total governmental funds	166,933	(38,746)	10,339	138,526
Capital asset purchases capitalized	83,554	266,947	0	350,501
Depreciation expense	(109,030)	(50,121)	0	(159,151)
Short-term note payable	(34,580)	16,116	0	(18,464)
Loss on disposal of capital assets	(9,892)	(3,898)	0	(13,790)
Change in net position of governmental activities	\$96,985	\$190,298	\$10,339	\$297,622

The accompanying notes are an integral part of these financial statements

**THE CITY OF MCLLOUD
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
JUNE 30, 2015**

	McLoud Public Works Authority	McLoud Economic Development Authority	Total Proprietary Funds
ASSETS			
Current assets:			
Cash and cash equivalents	326,428	141,340	467,768
Restricted cash and investments	65,792	0	65,792
Due from other funds	0	0	0
Total current assets	392,220	141,340	533,560
Noncurrent assets:			
Capital assets:			
Depreciable property and equipment	6,962,575	381,286	7,343,861
Accumulated depreciation	(2,526,689)	(156,147)	(2,682,836)
Land	58,465	0	58,465
Net capital assets	4,494,351	225,139	4,719,490
Total assets	4,886,571	366,479	5,253,050
LIABILITIES			
Current liabilities:			
Due to other funds	6,599	5,325	11,924
Current portion of debt	250,839	0	250,839
Total current liabilities	257,438	5,325	262,763
Noncurrent liabilities:			
Refundable deposits	46,035	0	46,035
Debt, less current portion	3,552,563	0	3,552,563
Total noncurrent liabilities	3,598,598	0	3,598,598
Total liabilities	3,856,036	5,325	3,861,361
NET POSITION			
Net investment in capital assets	690,949	225,139	916,088
Unrestricted	339,586	136,015	475,601
Total net position	\$1,030,535	\$361,154	\$1,391,689

The accompanying notes are an integral part of these financial statements

**THE CITY OF MCLLOUD
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	McLoud Public Works Authority	McLoud Economic Development Authority	Total Proprietary Funds
OPERATING REVENUES			
Sewer	307,281	0	307,281
Trash	360,174	0	360,174
Water	452,032	0	452,032
Late payment fees	31,338	0	31,338
Rental revenues	0	15,000	15,000
Other income	80,699	0	80,699
Total operating revenues	1,231,524	15,000	1,246,524
OPERATING EXPENSES			
Personal services	173,918	0	173,918
Sewer and water maintenance	188,082	0	188,082
Trash service	216,109	0	216,109
Depreciation	217,831	18,806	236,637
Economic development	0	9,494	9,494
Total operating expenses	795,940	28,300	824,240
OPERATING INCOME (LOSS)	435,584	(13,300)	422,284
NON-OPERATING REVENUES (EXPENSES)			
Interest income	35	14	49
Interest expense	(80,065)	0	(80,065)
Administration fees	(19,936)	0	(19,936)
Total non-operating revenues (expenses)	(99,966)	14	(99,952)
INCOME (LOSS) BEFORE TRANSFERS	335,618	(13,286)	322,332
Interfund transfers	(150,000)	0	(150,000)
CHANGE IN NET POSITION	185,618	(13,286)	172,332
BEGINNING NET POSITION	844,917	374,440	1,219,357
ENDING NET POSITION	\$1,030,535	\$361,154	\$1,391,689

The accompanying notes are an integral part of these financial statements

**THE CITY OF MCLLOUD
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	McCloud Public Works Authority	McCloud Economic Development Authority	Total Proprietary Funds
Cash flows from operations:			
Cash received from:			
Customers	1,150,825	15,000	1,165,825
Other operating receipts	80,698	0	80,698
Cash payments for:			
Goods and services	(397,139)	(5,831)	(402,970)
Employees	(173,918)	0	(173,918)
Net cash provided from operations	660,466	9,169	669,635
Cash flows from capital financing activities:			
Capital expenditures	(17,911)	0	(17,911)
Principal payments	(244,665)	0	(244,665)
Interest payments	(80,001)	0	(80,001)
Administration fees	(20,000)	0	(20,000)
Net cash from capital financing activities	(362,577)	0	(362,577)
Cash flows from non-capital financing activities:			
Interfund transfers	(150,000)	0	(150,000)
Net cash from non-capital financing activities	(150,000)	0	(150,000)
Cash flows from investing activities:			
Interest income	35	14	49
Net cash provided from investing activities	35	14	49
Net increase (decrease) in cash	147,924	9,183	157,107
Beginning cash	178,504	132,157	310,661
Ending cash	\$326,428	\$141,340	\$467,768
Reconciliation of income from operations to net cash from operations:			
Operating income (loss)	435,584	(13,300)	422,284
Adjustments to income from operations:			
Depreciation and amortization	217,831	18,806	236,637
Change in assets and liabilities:			
(Increase) decrease in interfund receivables	2,020	0	2,020
Increase (decrease) in interfund payables	6,599	3,663	10,262
Increase (decrease) in refundable deposits	(1,568)	0	(1,568)
Net cash provided by operations	\$660,466	\$9,169	\$669,635

The accompanying notes are an integral part of these financial statements

The City of McCloud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

1. Summary of Significant Accounting Policies

1A. Introduction

The City's financial statements are prepared using the modified cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles (GAAP) in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). These modified cash basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting. Generally, that means that only items arising from cash transactions are recorded. Accounts receivable and accounts payable, for instance, are not recorded.

1B. Financial Reporting Entity

The City of McCloud (City), established in 1895, operates under the council-manager form of government and provides the following major services: public safety, streets, public improvements, planning and zoning, and general administration. In conformity with GASB-61, the financial statements of the following component units have been included in the financial reporting entity as blended component units because their operating and financial relationships are significant to the City.

1B1. Blended Component Units

The McCloud Public Works Authority (MPWA), established November 1, 1979, an entity legally separate from the City, is governed by the same council that governs the City. For financial reporting purposes, the MPWA is reported as the City's utility fund, because its purpose is to finance and provide water, sewer, and trash services to the citizens of the City. The MPWA does not present separate financial statements.

The McCloud Economic Development Authority (MEDA), established March 28, 1991, an entity legally separate from the City, is governed by the same council that governs the City. For financial reporting purposes, the MEDA is reported as the City's economic development fund because its purpose is to promote the economic growth and development of the City. The MEDA does not present separate financial statements.

1C. Basis of Presentation

1C1. Fund Accounting

The City uses fund accounting to maintain its financial records. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts that comprises its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and

The City of McCloud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

expenditures/expenses. The City's funds are organized into two categories: governmental and proprietary. Within these categories, funds are further defined as major or non-major. The emphasis in fund financial statements is on major funds in either the governmental or business-type activities categories as defined by GASB 34. The City has four governmental funds and two proprietary funds.

Governmental funds:

General fund: The general fund is the primary operating fund of the City and is always classified as a major fund. It is used to account for all financial resources not accounted for and reported in another fund.

Special revenue funds: These funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. The City's street and alley fund and cemetery fund are special revenue funds.

Capital project funds: These funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital assets. The City's capital improvement fund is one of these funds.

Proprietary funds:

Enterprise funds: These funds are used to account for business-type activities provided to the general public and financed primarily by user charges. The McCloud Public Works Authority and the McCloud Economic Development Authority are the City's two enterprise funds.

1C2. Major and Nonmajor Funds

The emphasis in fund financial statements is on major funds in either the governmental or proprietary fund categories. Nonmajor funds by category are summarized into a single column. GASB-34 sets forth the following minimum criteria for the determination of major funds, except that the general fund is always major:

Total assets, liabilities, revenues, or expenditures/expenses are at least 10% of the corresponding total for all funds of the same type; and

Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental or business-type fund are at least 5% of the corresponding total for all governmental and enterprise funds combined.

The City's major funds are the general fund, the street and alley fund, and the MPWA. The remaining funds are nonmajor.

The City of McLoud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

1C3. Basis of Accounting and Measurement Focus

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied. Measurement focus is a term used to describe which transactions are recorded.

1C3a. Modified Cash Basis of Accounting

The modified cash basis of accounting is a comprehensive basis of accounting other than GAAP, and is a modification of the pure cash basis of accounting. Professional standards define the cash basis of accounting *as a basis of accounting an entity uses to record cash receipts and disbursements, and modifications of the cash basis having substantial support (for example, recording depreciation on fixed assets.)* Although the modified cash basis of accounting is not separately defined by professional standards, the modifications to the cash basis have evolved over time through common practice, and generally result when cash receipts or disbursements provide a benefit or obligation covering multiple reporting periods, and the reporting of the cash transaction would be more meaningful to financial statement users if spread over those multiple periods.

For modifications to be considered to have substantial support, they should:

1. be made as a result of cash receipts or disbursements;
2. have substantial support in GAAP or other accounting literature; and
3. be logical.

1C4. Government-wide Financial Statements

The government-wide financial statements are highly aggregated financial statements that present financial information for all assets, deferred outflows, liabilities, deferred inflows, and net position using the economic resources measurement focus within the limitations of the modified cash basis of accounting. This means that revenues are recorded when received and expenses, with the exception of capitalizing and depreciating capital assets, are recorded when paid. The government-wide financial statements required are the statement of net position and the statement of activities. These financial statements are designed to help users assess the finances of a government in its entirety, including the year's operating results; determine whether the government's overall financial position improved or deteriorated; and evaluate whether the government's current-year revenues were sufficient to pay for current year services. They are also designed to help users assess the cost of providing services to its citizenry; determine how the government finances its programs; understand the extent to which the government has invested in capital assets; and make better comparisons between governments.

1C5. Governmental Fund Financial Statements

The governmental fund financial statements focus primarily on the sources, uses, and balances of current financial resources. They are presented using the current financial resources

The City of McCloud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

measurement focus and the modified cash basis of accounting. Revenues are recognized when they are received and expenditures are recorded when paid. The financial statements required for governmental funds are the balance sheet and the statement of revenues, expenditures, and changes in fund balance. The governmental fund balance sheet does not present capital assets or long-term liabilities. Instead, the statement of revenues, expenditures and changes in fund balance reports the financial resource inflows and outflows arising from the disposition and acquisition of capital assets, the issuance and repayment of long-term debt, and maturation of non-debt long-term liabilities. Capital assets and long-term liabilities associated with and generally arising from activities reported in governmental funds are reported only in the government-wide financial statements.

1C6. Proprietary Fund Financial Statements

Proprietary funds utilize an economic resources measurement focus within the limitations of the modified cash basis of accounting, the objectives of which involves the determination of operating income, changes in net position, net position, and cash flows. The accounting principles applicable are those similar to businesses in the private sector. The City maintains one proprietary fund, which is an enterprise fund. Enterprise funds are used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues; has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges; or establishes fees and charges based on a pricing policy designed to recover similar costs.

1D. Cash and Cash Equivalents

The City has defined cash and cash equivalents to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

1E. Deposits and Investments

The governing body has not formally adopted deposit and investment policies that limit the government's allowable deposits or investments or that address the specific types of risk to which the government is exposed. However, it is the policy of the governing body to require deposits in excess of FDIC limits to be collateralized as required by Oklahoma Statutes.

1F. Interfund Activity

Interfund activity is reported either as loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other Interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The City of McLoud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

1G. Capital Assets

Capital assets purchased or acquired with an original cost of \$1,000 or more are reported at cost. Infrastructure assets such as streets that were constructed prior to the adoption of GASB 34 are not required to be reported and are not reported. In the general fund financial statements, capital assets are expensed as capital outlay. In the proprietary fund financial statements and in the government-wide financial statements, capital assets are capitalized and depreciation on all capital assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	15 to 40 years
Equipment	5 to 15 years
Utility systems	25 to 40 years

1H. Equity Classifications

In the government-wide statements, equity is classified as net position and reported in three components as follows:

1. Net investment in capital assets – Capital assets, net of accumulated depreciation, are reduced by the outstanding balances of any debt attributable to their acquisition, construction, or improvement.
2. Restricted – Assets that have had constraints placed upon them either by external sources such as creditors, grantors, contributors, or laws or regulations of other governments; or law through constitutional provisions or enabling legislation.
3. Unrestricted – All other net position is reported in this category.

In the fund financial statements, governmental fund equity is classified as fund balance and reported as needed in five components as follows:

1. Nonspendable – amounts not in a spendable form, or legally or contractually required to be maintained intact.
2. Restricted – constraints placed on fund balance are externally imposed by creditors, grantors, or other governments; or are imposed by law through constitutional provisions or enabling legislation.
3. Committed – amounts that can only be used for specific purposes as a result of constraints imposed by formal action of the individual government's highest level of decision making authority, which is by ordinance.
4. Assigned – constraints placed on fund balance are imposed by the government's intent that it be used for specific purposes, but are neither restricted nor committed. An individual government must define and disclose how it expresses its intent for purposes of making

The City of McCloud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

assignments. For the City, this intent is expressed by the use of purchase orders encumbering amounts for assigned purposes as approved by the board of trustees.

5. Unassigned – remaining fund balance in excess of all other classifications.

1I. Revenues and Expenditures

Program revenues in the government-wide statements 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. In proprietary funds, operating revenues and expenses result from providing the goods or services that are the funds principal ongoing operations. Revenues and expenses not meeting this definition are nonoperating revenues and expenses. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB-33. In applying GASB-33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

1J. Use of Restricted Resources

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

2. Deposits and Investments

The State of Oklahoma allows municipalities to invest in the following: direct obligations of the U.S. Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; and county, municipal or school district direct debt.

The City has insured deposits of \$47,550. Sweep accounts of \$996,247 are not insured or collateralized, but are invested in the same types of investments discussed above.

3. Restricted Cash

County Fire Tax

County sales tax funds restricted for the City's fire department are reported in the City's financial statements for accountability and control purposes. The county spends the funds for City operations at the City's request and title for all equipment purchased with these funds resides with

The City of McLoud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

the county. Balances reflected in the financial statements are: cash - \$138,110; intergovernmental revenues - \$42,305; expenditures: \$33,987.

Other cash is restricted as follows: \$12,686 restricted for the fire department sub-station; and \$5,676 restricted for veterans memorial park.

4. Long-term Debt

Long-term debt activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Backhoe lease	79,250	0	(16,116)	63,134	15,240
Police car lease	0	21,865	0	21,865	7,427
Police car lease	0	12,715	0	12,715	4,328
OWRB sewer system note	4,048,068	0	(244,665)	3,803,403	244,664
	<u>4,127,318</u>	<u>34,580</u>	<u>(260,781)</u>	<u>3,901,117</u>	<u>271,659</u>

Outstanding debt at year end was as follows:

	Interest Rate	Maturity Date	Amount Issued	Outstanding	Security
Governmental Activities					
Backhoe	3.675%	08/20/2018	79,250	63,134	backhoe
Police car	3.150%	07/31/2017	21,865	21,865	police car
Police car	3.150%	07/31/2017	12,715	21,865	police car
			<u>113,830</u>	<u>106,864</u>	
Business-type Activities					
Sewer system	2.508%	03/15/2028	5,315,000	3,803,403	utility revenues - 1cent sales tax

February 13, 2007, the MPWA issued a \$5,315,000 promissory note payable to the Oklahoma Water Resources Board for sewer system improvements. The note matures March 15, 2028, and originally carried a fixed annual interest rate of 3.10%, which included a .5% administration fee. During 2014, OWRB refunded the bonds to which the McLoud note is pledged, reducing the interest rate to 2.508%, including the .5% administration fee.

The note is secured by all utility revenues, a mortgage on the utility systems, and a pledge on 1% of the City's sales tax revenues.

February 20, 2014, the City entered into a 5-year capital lease for the purchase of a backhoe. The total lease is for \$79,250 with annual payments of \$17,560 due on August 20 of each year, beginning in August of 2014 and ending August 20, 2018.

The City of McCloud
Notes to the Basic Financial Statements
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May 21, 2015, the City entered into a 3-year capital lease for the purchase of a police car. The total lease is for \$21,865 with annual payments of \$7,562 due on July 31 of each year, beginning in July of 2015 and ending July 2017.

June 1, 2015, the City entered into a 3-year capital lease for the purchase of a police car. The total lease is for \$12,715 with annual payments of \$4,395 due on July 31 of each year, beginning in July of 2015 and ending July 2017.

A summary of debt service requirements to maturity by year is as follows:

	<u>Principal</u>	<u>Interest</u>
2016	277,834	96,349
2017	284,201	89,981
2018	291,635	82,548
2019	286,029	74,929
2020	277,136	67,530
2021-2025	1,494,191	229,138
2026-2028	990,091	43,906
	<u>3,901,117</u>	<u>684,381</u>

5. Compliance and Accountability

The PWA is required to maintain sufficient utility rates so that net revenues, as defined in the loan agreement, meet or exceed 1.25 times the maximum annual debt service of \$344,666, which is \$430,832. PWA net revenues for the current fiscal year did meet that requirement.

6. Capital Assets

Depreciation expense was charged to functions as follows:

Governmental Activities		Business-type Activities	
General government	7,898	Sewer	190,271
Fire department	34,388	Water	27,560
Police department	35,163	Economic development	18,806
Parks & recreation	30,062		<u>236,637</u>
Lake department	1,519		
Street department	50,121		
	<u>159,152</u>		

The City of McLoud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

Capital asset activity for the year just ended is summarized as follows:

	Beginning			Ending			Beginning			Ending			Book
	Balance	Additions	Disposals	Balance	Depreciation	Additions	Disposals	Depreciation	Balance	Depreciation	Additions	Disposals	Value
Governmental Activities													
Construction in progress	0	4,100	0	4,100	0	0	0	0	0	0	0	0	4,100
Total non-depreciable	0	4,100	0	4,100	0	0	0	0	0	0	0	0	4,100
Depreciable													
Buildings & bldg equipment	1,752,901	2,480	0	1,757,161	1,202,894	36,169	0	1,239,063	518,099				
Equipment	1,707,243	99,105	(323,279)	1,483,069	1,368,977	92,733	(310,987)	1,150,724	332,345				
Roads, bridges, sidewalks	847,363	244,815	0	1,092,179	52,386	30,250	0	82,636	1,009,543				
Total depreciable	4,307,507	346,401	(323,279)	4,332,409	2,624,257	159,152	(310,987)	2,472,422	1,859,987				
Total governmental	4,307,507	350,501	(323,279)	4,336,509	2,624,257	159,152	(310,987)	2,472,422	1,864,087				
Business-type Activities													
Land	58,465	0	0	58,465	0	0	0	0	58,465				
Total non-depreciable	58,465	0	0	58,465	0	0	0	0	58,465				
Depreciable													
Buildings & bldg equipment	381,286	0	0	381,286	137,341	18,806	0	156,147	225,139				
Equipment	54,792	1,000	(10,476)	45,316	47,271	1,777	(10,476)	38,572	6,744				
Utility systems	6,900,349	16,911	0	6,917,260	2,272,064	216,054	0	2,488,118	4,429,142				
Total depreciable	7,336,426	17,911	(10,476)	7,343,862	2,456,676	236,637	(10,476)	2,682,837	4,661,025				
Total business-type	7,394,892	17,911	(10,476)	7,402,327	2,456,676	236,637	(10,476)	2,682,837	4,719,490				

7. Defined Contribution Pension Plan

City employees participate in the Oklahoma Municipal Retirement System as authorized by City ordinance. Title 11, Oklahoma Statutes 1981, section 48-101 et. seq. assigns the authority to establish and amend the benefit provisions of the plans that participate in the System to the respective employer entities. All full-time employees of the City are eligible to participate in the System and full-time employees are fully vested after 7 years. Covered employees are required to contribute 2.25% of their gross payroll, while the City contributes 4.33%. The payroll for City employees for the year was \$793,973. The payroll for City employees covered by the Fund for the year was \$490,485. Actual City and employee contributions for the year were \$21,238 and \$11,036 respectively, equal to the required contributions for the year.

8. Defined Benefit Pension Plan

Plan Description. The City contributes to the Oklahoma Firefighters Pension and Retirement System (the System), a cost-sharing, multiple-employer, defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. The System is

The City of McLoud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73015, or by calling 1-800-525-7461.

Funding Policy. Volunteer firefighters are not required to contribute, but the City is required to contribute \$60 per volunteer per year. The contribution requirements of the System are an established rate determined by Oklahoma Statutes and are not based on actuarial calculations. The City's contributions to the System for the years ended June 30, 2015, 2014, and 2013 were \$1,740, \$1,560 and \$2,700 respectively, equal to the required contribution for each year. During 2013, the annual due date for contributions was changed to a calendar year, causing a double payment for that year.

Funding Policy. Paid firefighters are required to contribute 9%, while the city is required to contribute 14%. The contribution requirement of the OFFPRS is an established rate determined by Oklahoma Statute and is not based on actuarial calculations. The city and employee contributions for the year were \$11,197 and \$7,198 respectively, equal to the required contributions for the year. Eligible payroll was \$79,977.

9. Risk Management

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. For the year just ended, the City received \$11,954 in reimbursements for storm damage; and \$4,660 for vehicle damage.

10. Workers' Compensation Plan

The City participates in the Oklahoma Municipal Assurance Group (OMAG) Workers' Compensation Plan (the Plan). The Plan became effective October 1, 1984. The purpose of the Plan is to provide workers' compensation coverage through the State Insurance Fund to participating municipalities in the State of Oklahoma. In that capacity, the Plan is responsible for providing loss control services and certain fiscal activities including obtaining contract arrangements for the underwriting, excess insurance agreements, claims processing, and legal defense for any and all claims submitted to it during the Plan year. A plan year normally begins at 12:01 am July 1 in any year and ends at midnight June 30 of the following year. The Plan, or its designated agent, has a right to audit at all reasonable times such books and records of the participant as necessary to determine the monies owed for benefits provided to the municipality or its employees.

The City of McLoud
Notes to the Basic Financial Statements
As of and for the Year Ended June 30, 2015

Plan participants have the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, participants are responsible for complying with all requirements of the Oklahoma Workers' Compensation Act. Participants have the right to the return of any loss funds set aside for claims which have not been paid out as benefits. Losses are limited to amounts set aside by the Plan. The City did not have any funds on deposit with OMAG at year end.

11. Inter-fund Transactions

	General Fund	Street & Alley Fund	MPWA	MEDA	Non-Major	Net Internal Balances
Operations	(35,374)	47,359	(6,599)	(5,325)	(61)	0

	General Fund	MPWA	Net Transfers
General operations	150,000	(150,000)	0

12. Budgets

The board of trustees adopts a legally required annual operating budget each year. The same generally accepted accounting principles basis of accounting used for financial reporting purposes is used for budgetary purposes. Actual expenditures cannot exceed budgeted appropriations at the department level. Budgetary transfers between departments are approved by the board when required. Supplemental appropriations, if needed, are approved by the board and submitted to the state auditor's office as required by state statutes. All appropriations lapse at the end of the fiscal year. For the year just ended, two budget amendments were approved by the trustees.

13. Prior Period Adjustments

Prior period adjustments for the year ended June 30, 2015 are as follows:

Prior Period Adjustments	General Fund
Record Lake receivable	35,036

14. Subsequent Events

Management performed an evaluation of the City's activity through September 19, 2016, the date the financial statements were available to be issued, and has concluded that there are no significant subsequent events requiring disclosure through that date.

**THE CITY OF MCLLOUD
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Budget Basis Actual	Variance Favorable (Unfavorable)
REVENUES				
Sales and use taxes	391,000	391,500	449,562	58,062
Restricted sales tax	171,000	171,000	184,269	13,269
Franchise taxes	103,400	106,425	97,531	(8,894)
Intergovernmental	20,000	20,000	58,264	38,264
Grants	0	36,588	19,484	(17,104)
Fines and forfeitures	194,325	196,000	208,362	12,362
Licenses and permits	24,900	29,790	42,383	12,593
Sales and services	123,050	160,970	51,624	(109,346)
Donations	0	30,000	21,066	(8,934)
Other revenues	81,660	5,000	49,270	44,270
TOTAL REVENUES	1,109,335	1,147,273	1,181,815	34,542
EXPENDITURES				
Council-manager	80,516	82,424	65,850	16,574
Clerk-treasurer-court	183,405	186,436	175,025	11,411
Fire	251,117	276,434	186,533	89,901
Police	645,786	656,252	515,712	140,540
Animal control	3,600	8,115	1,764	6,351
Parks and recreation	99,234	103,695	81,414	22,281
Lake	127,378	127,649	89,610	38,039
Capital outlay	0	0	83,554	(83,554)
TOTAL EXPENDITURES	1,391,036	1,441,005	1,199,462	241,543
REVENUES OVER (UNDER) EXPENDITURES	(281,701)	(293,732)	(17,647)	276,085
OTHER FINANCING SOURCES (USES)				
Loan proceeds	0	0	34,580	34,580
Interfund transfers	240,000	240,000	150,000	(90,000)
NET OTHER FINANCING SOURCES (USES)	240,000	240,000	184,580	(55,420)
NET CHANGE IN FUND BALANCES	(41,701)	(53,732)	166,933	220,665
BEGINNING FUND BALANCE	213,493	213,493	213,493	0
ENDING FUND BALANCE	\$171,792	\$159,761	\$380,426	\$220,665

Notes to the budgetary comparison schedule:

1. The schedule is prepared using the modified cash basis of accounting.

**THE CITY OF MCLLOUD
 BUDGETARY COMPARISON SCHEDULE
 STREET & ALLEY FUND
 FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Budget Basis Actual	Variance Favorable (Unfavorable)
REVENUES				
Sales taxes	171,000	171,000	184,269	13,269
Intergovernmental	0	39,000	44,980	5,980
Grants	180,000	285,000	235,000	(50,000)
Other revenues	9,150	150	8,650	8,500
TOTAL REVENUES	360,150	495,150	472,899	(22,251)
EXPENDITURES				
Streets	255,419	583,382	227,138	356,244
Debt service	17,560	0	17,560	(17,560)
Capital outlay	167,850	0	266,947	(266,947)
TOTAL EXPENDITURES	440,829	583,382	511,645	71,737
REVENUES OVER (UNDER) EXPENDITURES	(80,679)	(88,232)	(38,746)	49,486
NET CHANGE IN FUND BALANCES	(80,679)	(88,232)	(38,746)	49,486
BEGINNING FUND BALANCE	195,441	195,441	195,441	0
ENDING FUND BALANCE	\$114,762	\$107,209	\$156,695	\$49,486

Notes to the budgetary comparison schedule:

1. The schedule is prepared using the modified cash basis of accounting.

**THE CITY OF MCLOUD
 BUDGETARY COMPARISON SCHEDULE
 NON-MAJOR FUNDS
 FOR THE YEAR ENDED JUNE 30, 2015**

	Original Budget	Final Budget	Budget Basis Actual	Variance Favorable (Unfavorable)
REVENUES				
Sales and services	0	0	784	784
Donations	0	0	10,012	10,012
Other revenues	0	0	10	10
TOTAL REVENUES	0	0	10,806	10,806
EXPENDITURES				
Cemetery	500	500	55	445
Capital improvements	400	800	412	388
Capital outlay	0	0	0	0
TOTAL EXPENDITURES	900	1,300	467	833
REVENUES OVER (UNDER) EXPENDITURES	(900)	(1,300)	10,339	11,639
NET CHANGE IN FUND BALANCES	(900)	(1,300)	10,339	11,639
BEGINNING FUND BALANCE	101,720	101,720	101,720	0
ENDING FUND BALANCE	\$100,820	\$100,420	\$112,059	\$11,639

Notes to the budgetary comparison schedule:

1. The schedule is prepared using the modified cash basis of accounting.

**THE CITY OF MCLLOUD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

<i>FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE</i>	<i>FEDERAL CFDA NUMBER</i>	<i>PASS-THROUGH GRANTOR'S NUMBER</i>	<i>EXPENSES</i>
U.S. Department of Transportation <i>Oklahoma Department of Transportation</i> Federal-Aid Highway Program, Federal Lands Highway Program	20.205	SAP-263D(023) SAP-263E(013)	85,000 <u>100,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$185,000</u></u>

**THE CITY OF MCLLOUD
SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2015**

<i>STATE GRANTOR/ PASS-THROUGH GRANTOR PROGRAM TITLE</i>	<i>GRANTOR'S NUMBER</i>	<i>EXPENSES</i>
Oklahoma Department of Agriculture <i>N/A</i> Rural Fire Protection		4,484
State of Oklahoma <i>Oklahoma Tobacco Settlement Endowment Trust</i> Healthy Communities Incentive Grants Program	HCIG-2014-McLoud-TO-00006	10,000
Oklahoma Department of Commerce <i>Central Oklahoma Economic Development District</i> Rural Economic Action Plan	2014 REAP 27	50,000
TOTAL EXPENDITURES OF STATE AWARDS		<u><u>\$64,484</u></u>

Notes to the schedules of expenditures of federal and state awards:

1. These schedules are prepared using the modified cash basis of accounting.

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

To the City Council
City of McLoud

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 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 the City of McLoud, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City of McLoud, Oklahoma's basic financial statements, and have issued our report thereon dated September 19, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of McLoud, Oklahoma'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 City of McLoud, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of McLoud, Oklahoma's internal control.

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. 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.

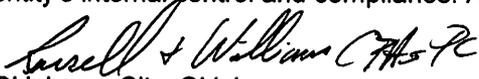
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of McLoud, Oklahoma's financial statements are free from 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*.

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 *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Oklahoma City, Oklahoma
September 19, 2016