

City of McLoud Financial Audits (2011-2021)

Integrity of the Game vs Economic Impact (Politics); The Oklahoma Business Plan

This briefing document summarizes the main themes, important ideas, and facts identified in the provided financial audit reports for the City of McLoud, Oklahoma, spanning the fiscal years 2011 through 2021 (reports are generally issued the following year).

Overall Theme: Modified Cash Basis Accounting and Consistent Reporting

A consistent theme throughout all the audit reports is the City of McLoud's use of the **modified cash basis of accounting**, a basis other than Generally Accepted Accounting Principles (GAAP). This method recognizes revenues when received and expenditures when paid, with some modifications such as the capitalization and depreciation of capital assets.

2014 Audit: "We draw attention to Note 1C of the financial statements that describes the basis of accounting. The financial statements are prepared on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America."

2015 Audit: "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."

This emphasis continues in subsequent reports (2016, 2017, 2018, 2019, 2020, 2021).

The reports consistently cover the government-wide financial statements (Statement of Net Position and Statement of Activities) and fund financial statements (Governmental Funds and Proprietary Funds). The Proprietary Funds consistently include the McLoud Public Works Authority (MPWA) and the McLoud Economic Development Authority (MEDA) as blended component units.

2014 Audit: "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 McLoud Public Works Authority (MPWA)... The McLoud Economic Development Authority (MEDA)..."

Key Financial Trends and Information:

Assets and Liabilities: The Statement of Net Position consistently presents assets categorized as current and noncurrent (primarily capital assets), and liabilities as current and noncurrent. Net position is classified into net investment in capital assets, restricted, and unrestricted components. Business-type activities generally show higher asset values and liabilities compared to governmental activities, largely due to the MPWA's utility infrastructure.

Revenues and Expenses/Expenditures: The Statement of Activities details program revenues (charges for services, grants) and general revenues (taxes, interest income, transfers) against the expenses of various governmental and business-type functions. Sales and use taxes are a significant source of general revenue. The Proprietary Funds (MPWA and MEDA) show operating revenues derived from user charges (water, sewer, trash).

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Fund Balances: Governmental fund financial statements (Balance Sheet - Governmental Funds) focus on current financial resources, reporting fund balances categorized as restricted, committed, assigned, and unassigned.

Long-Term Debt: Notes to the financial statements consistently provide details on the City's long-term debt, including leases and notes payable (primarily for sewer system improvements through the Oklahoma Water Resources Board - OWRB). Debt service requirements are also typically outlined.

2014 Audit: "Long-term debt activity for the year ended June 30, 2014, was as follows: Beginning Balance Additions Reductions Balance Due in One Year Backhoe lease 0 79,250 0 79,250 16,116 OWRB sewer system note 4,275,165 0 (227,097) 4,048,068 244,664"

Similar tables appear in subsequent years, tracking changes in debt balances, additions (new leases, etc.), and reductions (payments).

Capital Assets: Notes also detail the City's capital assets, including buildings, equipment, utility systems, and infrastructure. Depreciation is consistently applied to depreciable assets.

2014 Audit: "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."

Schedules show beginning and ending balances, additions, disposals, and accumulated depreciation for both governmental and business-type activities.

Interfund Transactions: Interfund activity, including transfers between governmental and proprietary funds, is disclosed in the notes.

2014 Audit: Example table showing transfers between General Fund, Street & Alley Fund, Capital Improvements, MPWA, and MEDA.

Budgets: The City adopts legally required annual operating budgets. Budgetary comparison schedules are presented as supplementary information.

2014 Audit: "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."

Restricted Cash: The existence of restricted cash balances for specific purposes (e.g., fire department, streets, capital improvements) is consistently noted.

2014 Audit: "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 county."

Auditor's Opinions and Internal Control:

The Independent Auditor's Reports consistently express an **unmodified opinion** on the financial statements, indicating that they are presented fairly, in all material respects, in accordance with the modified cash basis of accounting.

2014 Audit: "We have audited the accompanying modified cash-basis financial statements... and have issued our report thereon dated March 17, 2016. 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, each major fund, and the aggregate remaining fund information of the City of McLoud, State of Oklahoma as of June

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30, 2014, and the respective modified cash-basis changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in Note 1C."

This wording is consistent across the audit reports.

The auditors also provide a separate 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. These reports typically state that the auditors considered internal control but do not express an opinion on its effectiveness. The results of tests for compliance generally disclose no instances of noncompliance required to be reported.

2014 Audit: "In planning and performing our audit of the financial statements, we considered City of McLoud, State of 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 City of McLoud, State of Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of City of McLoud, State of Oklahoma's internal control."

2014 Audit: "The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards."

Similar statements regarding internal control and compliance appear in the other audit reports provided.

Emphasis of Matter (Basis of Accounting):

As noted earlier, the auditors consistently include an emphasis of matter paragraph drawing attention to the modified cash basis of accounting. This does not modify their opinion on the fairness of the financial statements.

Going Concern Consideration (Starting 2022/2023):

The excerpts from the 2022 and 2023 audit reports include a section on the "Going Concern" consideration, where management is required to evaluate the City's ability to continue as a going concern. This suggests a potential area of financial scrutiny in more recent periods, although the provided excerpts do not detail any substantial doubt identified by management or the auditors within these specific excerpts.

In summary, the financial audit reports for the City of McLoud from 2011 to 2021 provide a consistent picture of the City's financial position and operations, prepared on a modified cash basis of accounting. The audits have consistently resulted in unmodified opinions, and generally no significant instances of noncompliance have been reported. Key areas of focus include the balance of assets and liabilities, revenue sources (particularly sales tax and user charges), management of long-term debt, and the accounting for capital assets and interfund activities.