



# CITY OF PRAGUE, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR  
ENDED JUNE 30, 2013

**THE CITY OF PRAGUE,  
OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORTS**

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**CITY OF PRAGUE, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2013**

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## **INDEPENDENT AUDITORS' REPORT**

To the Users of the City of Prague, Oklahoma, Annual Financial Report

### **Report on the Financial Statements**

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prague, Oklahoma (the "City") as of and for the year ended June 30, 2013, and the related notes to basic financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1(B); 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.

### **Auditors' 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 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 auditors' 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 auditors consider 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.

(Continued)

## INDEPENDENT AUDITORS' REPORT, CONTINUED

### 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, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2013, and the respective changes in modified cash basis financial position and where applicable, cash flows—modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1(B).

### Emphasis of Matters

#### *Basis of Accounting*

We draw attention to Note 1(B) of the financial statements, which 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. Our opinions are not modified with respect to this matter.

#### *Change in Accounting Principle*

As discussed in Note 1(B) to the financial statements, in 2013 the City adopted new accounting guidance, Statements No. 63 and No. 65 of the Governmental Accounting Standards Board (GASB), *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, and Items Previously Reported as Assets and Liabilities*, respectively. Our opinions are not modified with respect to this matter.

### Other Matters

#### *Report on Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the City's basic financial statements. The management's discussion and analysis, budgetary comparison information and other information, such as the non-major governmental funds combining schedules—modified cash basis, schedule of expenditures of federal and state awards, schedule of debt service coverage, and schedule of reserve account requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The management's discussion and analysis and budgetary comparison information on pages 7 through 13, and pages 38 through 40, which are the responsibility of management, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we do not express an opinion or provide any assurance on it.

(Continued)

## INDEPENDENT AUDITORS' REPORT, CONTINUED

### Other Matters, Continued

#### *Report on Supplementary and Other Information, Continued*

The non-major governmental funds combining schedules—modified cash basis, schedules of expenditures of federal and state awards, schedule of debt service coverage, and schedule of reserve account requirements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
April 8, 2014

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**CITY OF PRAGUE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2013**

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The management of the City of Prague is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2013. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

### **FINANCIAL HIGHLIGHTS**

- As reported on a modified cash basis, the City's total net position increased by \$18,783, and the assets of the City exceed its liabilities at June 30, 2013, by \$1,779,119 (net position). Of this amount, \$727,866 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2013, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$1,237,940.
- At the end of fiscal year 2013, unassigned fund balance on a modified cash basis for the General Fund was \$281,066 or 18.4% of General Fund revenues.

### **ABOUT THE CITY**

The City of Prague is an incorporated municipality with a population of approximately 2,400 located in Lincoln County in central Oklahoma. The City is governed by a five-member Council and operates under state law and city ordinances through the three branches of democratic government:

- Legislative – the City Council is a five-member governing body elected by the citizens at large
- Executive – the City Manager is the Chief Executive Officer and is appointed by the City Council
- Judicial – the Municipal Judge is a practicing attorney appointed by the City Council

The City provides typical municipal services such as public safety, health and welfare, street and alley maintenance, parks and recreation, and through its Public Works Authority, certain utility services including electric, water, wastewater, and sanitation.

#### ***The City's Financial Reporting Entity***

This annual report includes all activities for which the City Council is financially accountable. These activities, defined as the City's financial reporting entity, are operated within separate legal entities.

The City's financial reporting entity includes the following separate legal entities.

**CITY OF PRAGUE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2013**

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- **The City of Prague** – an incorporated City that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as part of the primary government*
- **The Prague Public Works Authority (PPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, electric and sanitation services of the City, with the City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*

In addition, as required by state law, all debt obligations incurred by the trusts must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the City's financial reporting entity. The public trusts do not issue separate annual financial statements.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include all of the activities of the City of Prague (the "City") and the Prague Public Works Authority (the "Public Works Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present the complete financial picture of the City using the modified cash basis of accounting. They present governmental activities separately and combined. For governmental and business-type activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

### **Reporting the City as a Whole**

#### ***The Statement of Net Position and Statement of Activities***

One of the most important questions to ask about the City's finances is, "Has the City's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the City's sales tax base, the condition of the City's roads, and quality of service to assess the overall health of the City. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those City assets and liabilities resulting from cash transactions.

In the Statement of Net Position and the Statement of Activities, we divide the City into two kinds of activities: *Governmental activities* - Most of the City's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* – Activities where the City charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The City's electric, water, sewer, and sanitation utilities are reported as business-type activities.

## **Reporting the City's Most Significant Funds - Fund Financial Statements**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the City's most significant (major) funds -- not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money.

*Governmental funds* - All of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

*Proprietary funds* - When the City, through the Public Works Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are also reported on the modified cash basis of accounting. The City's proprietary fund is the Prague Public Works Authority that accounts for the operation of the electric, water, sewer, and sanitation activities.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 26-38 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund and Emergency Reserve Fund, combining and individual fund financial statements, a federal and state award schedule, and a debt service coverage schedule.

**CITY OF PRAGUE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2013**

**THE CITY AS A WHOLE**

Following is a summary of net position reported on a modified cash basis for the City of Prague.

**Net Position (Modified Cash Basis)**  
**June 30, 2013**

**TABLE 1**  
**NET POSITION (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2013	2012		2013	2012		2013	2012	
Current assets	\$ 1,241	\$ 832	49%	\$ 601	\$ 989	-39%	\$ 1,842	\$ 1,821	1%
<b>Total assets</b>	<u>1,241</u>	<u>832</u>	49%	<u>601</u>	<u>989</u>	-39%	<u>1,842</u>	<u>1,821</u>	1%
Current liabilities	3	4	-25%	60	57	5%	63	61	3%
<b>Total liabilities</b>	<u>3</u>	<u>4</u>	-25%	<u>60</u>	<u>57</u>	5%	<u>63</u>	<u>61</u>	3%
Net position									
Restricted	890	741	20%	161	313	-49%	1,051	1,054	0%
Unrestricted	348	87	300%	380	619	-39%	728	706	3%
<b>Total net position</b>	<u>\$ 1,238</u>	<u>\$ 828</u>	50%	<u>\$ 541</u>	<u>\$ 932</u>	-42%	<u>\$ 1,779</u>	<u>\$ 1,760</u>	1%

For the year ended June 30, 2013, net position on a modified cash basis for the governmental and business-type activities increased \$18,783. In the governmental activities, sales and use taxes increased over the prior year by \$497,324. In the business-type activities, note proceeds in the amount of \$500,000 was received in the prior year but spent in the current year. This increase was due to a pipeline company establishing an office in Prague and the purchase of construction materials and inventory.

**CITY OF PRAGUE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2013**

**Revenues, Expenses and Changes in Net Position (Modified Cash Basis)**  
**Year Ended June 30, 2013**

**TABLE 2**  
**CHANGES IN NET POSITION (In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2013	2012		2013	2012		2013	2012	
<b>Revenues</b>									
Charges for service	\$ 213	\$ 196	9%	\$ 2,896	\$ 2,858	1%	\$ 3,109	\$ 3,054	2%
Operating grants and contributions	76	68	12%	-	-	-	76	68	12%
Capital grants and contributions	181	54	235%	-	-	-	181	54	235%
Taxes	1,612	1,113	45%	-	-	-	1,612	1,113	45%
Intergovernmental revenue	45	24	88%	-	-	-	45	24	88%
Investment income	1	2	-50%	-	1	-100%	1	3	-67%
Miscellaneous	100	87	15%	63	60	5%	163	147	11%
<b>Total revenues</b>	<b>2,228</b>	<b>1,544</b>	<b>44%</b>	<b>2,959</b>	<b>2,919</b>	<b>1%</b>	<b>5,187</b>	<b>4,463</b>	<b>16%</b>
<b>Expenses</b>									
General government	219	207	6%	-	-	-	219	207	6%
Public safety	1,031	1,007	2%	-	-	-	1,031	1,007	2%
Streets	340	149	128%	-	-	-	340	149	128%
Culture, parks and recreation	321	276	16%	-	-	-	321	276	16%
<b>Airport</b>	<b>39</b>	<b>63</b>	<b>-38%</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>39</b>	<b>63</b>	<b>-38%</b>
Cemetery	9	6	50%	-	-	-	9	6	50%
Electric	-	-	-	2,248	2,034	11%	2,248	2,034	11%
Water	-	-	-	248	193	28%	248	193	28%
Wastewater	-	-	-	476	448	6%	476	448	6%
Sanitation	-	-	-	237	221	7%	237	221	7%
<b>Total expenses</b>	<b>1,959</b>	<b>1,708</b>	<b>15%</b>	<b>3,209</b>	<b>2,896</b>	<b>11%</b>	<b>5,168</b>	<b>4,604</b>	<b>12%</b>
Excess (deficiency) before transfers	269	(164)	-264%	(250)	23	-1187%	19	(141)	-113%
Proceeds from long term debt	-	-	-	-	500	-100%	-	500	-100%
Transfers	141	140	1%	(141)	(140)	1%	-	-	-
<b>Change in net position</b>	<b>410</b>	<b>(24)</b>	<b>-1808%</b>	<b>(391)</b>	<b>383</b>	<b>-202%</b>	<b>19</b>	<b>359</b>	<b>-95%</b>
Beginning net position	828	852	-3%	932	549	70%	1,760	1,401	26%
<b>Ending net position</b>	<b>\$ 1,238</b>	<b>\$ 828</b>	<b>50%</b>	<b>\$ 541</b>	<b>\$ 932</b>	<b>-42%</b>	<b>\$ 1,779</b>	<b>\$ 1,760</b>	<b>1%</b>

The governmental activities operating and capital grants and contributions increased \$134,387 primarily for street projects. See schedules on page 42 for more detail.

The cause for the change in net position is noted on the previous page.

**CITY OF PRAGUE, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2013**

**Governmental Activities**

The City's governmental activities had an increase in net position of \$410,149.

**TABLE 3**  
**Net Revenue (Expense) of Governmental Activities**  
**(In Thousands)**

	<b>Total Expense of Services</b>		<b>% Inc. (Dec.)</b>	<b>Net Revenue (Expense) of Services</b>		<b>% Inc. (Dec.)</b>
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
	General government	\$ 219	\$ 207	6%	(\$200)	(\$197)
Public safety	1,031	1,007	2%	(801)	(798)	0%
Streets	340	149	128%	(143)	(109)	31%
Culture, parks and recreation	321	276	16%	(316)	(270)	17%
Airport	39	63	-38%	(39)	(26)	50%
Cemetery	9	6	50%	10	11	-9%
<b>Total</b>	<u>\$ 1,959</u>	<u>\$ 1,708</u>	15%	<u>(\$1,489)</u>	<u>(\$1,389)</u>	7%

The significant increase in the total expenses for services from the prior year is primarily due to the grant expenditures from the U.S. Department of Housing and Urban Development and COEDDA.

**Business-type Activities**

The business-type activities had a decrease in net position of \$391,366. See explanation on page 10.

**TABLE 4**  
**Net Revenue (Expense) of Business-Type Activities**  
**(In Thousands)**

	<b>Total Expense of Services</b>		<b>% Inc. Dec.</b>	<b>Net Revenue (Expense) of Services</b>		<b>% Inc. Dec.</b>
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
	Electric	\$ 2,248	\$ 2,033	11%	\$(219)	\$(35)
Water	248	193	28%	109	136	-20%
Wastewater	476	448	6%	(203)	(169)	20%
Sanitation	237	221	7%	(1)	31	-103%
<b>Total</b>	<u>\$ 3,209</u>	<u>\$ 2,895</u>	11%	<u>\$(314)</u>	<u>\$(37)</u>	749%

The increase in the net expense for the services from the prior year is primarily due to the electric expense increasing \$214,719, while revenues stayed relatively consistent.

## **A FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

As the City completed its 2013 fiscal year, the governmental funds reported a combined fund balance of \$1,237,940.

### **Other fund highlights include:**

- For the year ended June 30, 2013, the Emergency Reserve Fund's total fund balance increased by \$86,258.
- The Capital Improvement Fund had an increase of \$98,518 in fund balance.

### **Budgetary Highlights**

For the year ended June 30, 2013, the General Fund reported actual budgetary basis revenues over final estimates by \$179,637 or an 11.6% positive variance. General Fund actual expenditures were under final appropriations by \$53,658 or 3.5% positive variance.

## **ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES**

The following information outlines significant known factors that will affect subsequent year finances:

- For the FY 2014 budget, management does not anticipate any major changes.

### **Contacting the City's Financial Management**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Clerk's office at 820 N. Jim Thorpe Blvd., Prague, Oklahoma 74864 or telephone at 405-567-2270.

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**BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET POSITION AND ACTIVITIES**

**CITY OF PRAGUE, OKLAHOMA**  
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**Statement of Net Position (Modified Cash Basis)– June 30, 2013**

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,226,220	\$ 605,699	\$ 1,831,919
Investments	10,000	-	10,000
Internal balances	4,724	(4,724)	-
Total Assets	<u>1,240,944</u>	<u>600,975</u>	<u>1,841,919</u>
<b>LIABILITIES</b>			
Due to other governments	353	5,430	5,783
Due to depositors	-	54,366	54,366
Due to others	2,651	-	2,651
Total liabilities	<u>3,004</u>	<u>59,796</u>	<u>62,800</u>
<b>NET POSITION</b>			
Restricted for:			
Debt service	-	161,577	161,577
Other purposes (Note 1.E.)	889,676	-	889,676
Unrestricted	348,264	379,602	727,866
Total net position	<u>\$ 1,237,940</u>	<u>\$ 541,179</u>	<u>\$ 1,779,119</u>

See accompanying notes to these financial statements.

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**Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
Governmental Activities							
General Government	\$ 218,588	\$ 3,858	\$ 4,900	\$ 9,900	\$ (199,930)	\$ -	\$ (199,930)
Public Safety	1,030,609	190,070	9,484	29,662	(801,393)	-	(801,393)
Highways and streets	339,967	-	56,144	141,000	(142,823)	-	(142,823)
Culture and Recreation	321,449	-	5,431	-	(316,018)	-	(316,018)
Cemetery	9,556	19,556	-	-	10,000	-	10,000
Airport	38,928	-	-	-	(38,928)	-	(38,928)
Total governmental activities	<u>1,959,097</u>	<u>213,484</u>	<u>75,959</u>	<u>180,562</u>	<u>(1,489,092)</u>	<u>-</u>	<u>(1,489,092)</u>
Business-type activities:							
Electric	2,248,319	2,029,141	-	-	-	(219,178)	(219,178)
Water	248,289	357,644	-	-	-	109,355	109,355
Sewer	475,635	272,981	-	-	-	(202,654)	(202,654)
Sanitation	236,567	235,615	-	-	-	(952)	(952)
Total business-type activities	<u>3,208,810</u>	<u>2,895,381</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(313,429)</u>	<u>(313,429)</u>
<b>Total primary government</b>	<u>5,167,907</u>	<u>3,108,865</u>	<u>75,959</u>	<u>180,562</u>	<u>(1,489,092)</u>	<u>(313,429)</u>	<u>(1,802,521)</u>
<b>General revenues:</b>							
Taxes:							
Sales and use taxes					\$ 1,573,291	\$ -	\$ 1,573,291
Franchise taxes and public service taxes					38,569	-	38,569
Intergovernmental revenue not restricted to specific programs					45,373	-	45,373
Unrestricted investment earnings					1,268	419	1,687
Miscellaneous					99,583	62,801	162,384
Transfers					141,157	(141,157)	-
Total general revenues and transfers					<u>1,889,241</u>	<u>(77,937)</u>	<u>1,821,304</u>
Change in net position					410,149	(391,366)	18,783
Net position - beginning					827,791	932,545	1,760,336
Net position - ending					<u>\$ 1,237,940</u>	<u>\$ 541,179</u>	<u>\$ 1,779,119</u>

See accompanying notes to these financial statements.

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**BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS**

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**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2013**

	<u>General Fund</u>	<u>Emergency Reserve Fund</u>	<u>Capital Improvement Fund</u>	<u>CDBG Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	288,421	\$ 641,038	\$ 195,402	\$ 13,427	\$ 87,932	\$ 1,226,220
Investments	10,000	-	-	-	-	10,000
Due from other funds	5,052	-	-	-	6,673	11,725
<b>Total assets</b>	<u>303,473</u>	<u>641,038</u>	<u>195,402</u>	<u>13,427</u>	<u>94,605</u>	<u>1,247,945</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Due to other governments	353	-	-	-	-	353
Due to others	2,651	-	-	-	-	2,651
Due to other funds	7,001	-	-	-	-	7,001
<b>Total liabilities</b>	<u>10,005</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,005</u>
<b>Fund balances:</b>						
<b>Restricted for:</b>						
Fire	-	-	-	-	32,147	32,147
E911	-	-	-	-	2,984	2,984
Library	10,346	-	-	-	-	10,346
Airport	-	-	-	-	12,752	12,752
Healthy community grant	2,000	-	-	-	-	2,000
Special project (emergency reserve fund)	-	634,536	-	-	-	634,536
Capital projects	-	-	181,484	-	-	181,484
CDBG grant	-	-	-	13,427	-	13,427
<b>Assigned to:</b>						
Cemetery	-	-	-	-	4,324	4,324
Library	56	-	-	-	18,000	18,056
Streets	-	-	-	-	24,345	24,345
Special project (emergency reserve fund)	-	6,502	-	-	-	6,502
Capital projects	-	-	13,918	-	-	13,918
Fire	-	-	-	-	53	53
<b>Unassigned</b>	<u>281,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>281,066</u>
<b>Total fund balances</b>	<u>293,468</u>	<u>641,038</u>	<u>195,402</u>	<u>13,427</u>	<u>94,605</u>	<u>1,237,940</u>
<b>Total liabilities and fund balances</b>	<u>\$ 303,473</u>	<u>\$ 641,038</u>	<u>\$ 195,402</u>	<u>\$ 13,427</u>	<u>\$ 94,605</u>	<u>\$ 1,247,945</u>

See accompanying notes to these financial statements.

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance**  
**(Modified Cash Basis) – Year Ended June 30, 2013**

	<u>General Fund</u>	<u>Emergency Reserve Fund</u>	<u>Capital Improvement Fund</u>	<u>CDBG Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>						
Taxes	\$ 1,269,205	\$ 85,664	\$ 171,327	\$ -	\$ 85,664	\$ 1,611,860
Intergovernmental	94,850	-	-	150,900	56,144	301,894
Charges for services	18,455	-	-	-	3,580	22,035
Fines and forfeitures	55,778	-	-	-	-	55,778
Licenses and permits	3,828	-	-	-	-	3,828
Investment income	348	594	138	-	188	1,268
Miscellaneous	86,085	-	13,498	-	-	99,583
<b>Total revenues</b>	<b>1,528,549</b>	<b>86,258</b>	<b>184,963</b>	<b>150,900</b>	<b>145,576</b>	<b>2,096,246</b>
<b>EXPENDITURES</b>						
Current:						
General government	207,066	-	-	-	-	207,066
Public Safety	893,561	-	-	-	-	893,561
Highway and streets	38,112	-	-	-	6,136	44,248
Culture and recreation	303,294	-	-	-	-	303,294
Cemetery	-	-	-	-	9,556	9,556
Airport	16,647	-	-	-	-	16,647
Capital Outlay	34,296	-	66,845	269,391	114,193	484,725
<b>Total Expenditures</b>	<b>1,492,976</b>	<b>-</b>	<b>66,845</b>	<b>269,391</b>	<b>129,885</b>	<b>1,959,097</b>
Excess (deficiency) of revenues over expenditures	35,573	86,258	118,118	(118,491)	15,691	137,149
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	200,000	-	-	130,000	92,600	422,600
Transfers out	-	-	(19,600)	-	(130,000)	(149,600)
<b>Total other financing sources and uses</b>	<b>200,000</b>	<b>-</b>	<b>(19,600)</b>	<b>130,000</b>	<b>(37,400)</b>	<b>273,000</b>
<b>Net change in fund balances</b>	<b>235,573</b>	<b>86,258</b>	<b>98,518</b>	<b>11,509</b>	<b>(21,709)</b>	<b>410,149</b>
Fund balances - beginning	57,895	554,780	96,884	1,918	116,314	827,791
<b>Fund balances - ending</b>	<b>\$ 293,468</b>	<b>\$ 641,038</b>	<b>\$ 195,402</b>	<b>\$ 13,427</b>	<b>\$ 94,605</b>	<b>\$ 1,237,940</b>

See accompanying notes to these financial statements.

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**BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND**

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**Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2013**

	<b><u>Prague Public Works Authority Enterprise Fund</u></b>
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 389,756
Restricted cash and cash equivalents	215,943
Due from other funds	328
Total assets	<u>606,027</u>
 <b>LIABILITIES</b>	
Current Liabilities:	
Due to other governments	5,430
Due to other funds	5,052
Due to depositors	54,366
Total current liabilities	<u>64,848</u>
 <b>NET POSITION</b>	
Restricted for debt service	161,577
Unrestricted	379,602
Total net position	<u>\$ 541,179</u>

See accompanying notes to these financial statements.

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**Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2013**

	<b><u>Prague Public Works Authority Enterprise Fund</u></b>
<b>Operating Revenues:</b>	
Charges for services:	
Electric	\$ 2,019,111
Water	333,848
Sewer	271,632
Sanitation	221,622
Landfill charges	12,891
Lake	22,138
Miscellaneous	14,139
Ambulance subsidy	131,843
Total operating revenues	<u>3,027,224</u>
 <b>OPERATING EXPENSES</b>	
Municipal Garage	46,029
Administration	290,924
Electric	1,766,631
Water	46,739
Sewer	356,860
Sanitation	192,960
Lake	51,477
Hospital	16,211
Total Operating Expenses	<u>2,767,831</u>
Operating income	<u>259,393</u>
 <b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment income	419
Artic Temp revenue	42,801
OMPA Cups	20,000
Capital outlay	(173,966)
Debt service:	
Principal retirement	(203,264)
Interest expense and fees	(63,749)
Total non-operating revenue (expenses)	<u>(377,759)</u>
Loss before transfers	(118,366)
Transfers out	<u>(273,000)</u>
Change in net position	(391,366)
Total net position - beginning	932,545
Total net position - ending	<u>\$ 541,179</u>

See accompanying notes to these financial statements.

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**Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2013**

	<b>Prague Public Works Authority Enterprise Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 3,027,224
Payments to suppliers	(2,204,521)
Payments to employees	(562,354)
Payment to other fund	8,128
Payment of customer meter deposits	1,957
Other receipts	62,801
<b>Net cash provided by operating activities</b>	<b>333,235</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Transfers to other funds	(273,000)
<b>Net cash provided by (used in) noncapital financing activities</b>	<b>(273,000)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(173,966)
Principal paid on debt	(203,264)
Interest and fiscal agent fees paid on debt	(63,749)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>(440,979)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest and dividends	419
<b>Net cash provided by investing activities</b>	<b>419</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(380,325)</b>
<b>Balances - beginning of year</b>	<b>986,024</b>
<b>Balances - end of year</b>	<b>\$ 605,699</b>
<b>Reconciliation to Statement of Net Position:</b>	
Cash and cash equivalents	\$ 389,756
Restricted cash and cash equivalents - current	215,943
<b>Total cash and cash equivalents, end of year</b>	<b>\$ 605,699</b>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 259,393
Adjustments to reconcile operating income to net cash provided by operating activities:	
Miscellaneous revenue	62,801
Change in assets and liabilities:	
Due to other funds	8,128
Due to other governments	956
Deposits subject to refund	1,957
<b>Net cash provided by operating activities</b>	<b>\$ 333,235</b>

See accompanying notes to these financial statements.

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**FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS**

**1. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

In determining the financial reporting entity, the City complies with the provisions of Governmental Accounting Standards Board Statement No. 14, "*The Financial Reporting Entity*" as amended by Statement 61, that requires the primary government and all component units of which the primary government is financially accountable be included in the financial report. The City's financial reporting entity includes two separate legal entities reported as the primary government and a component unit.

- **The City of Prague** – an incorporated municipality that operates the public safety, streets and public works, health and welfare, culture and recreation, and administrative activities of the City – *reported as part of the primary government*
- **The Prague Public Works Authority (PPWA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, electric and sanitation services of the City, with the City Council members serving as the trustees – *considered part of the primary government presentation for reporting purposes*

For the above public trust, the City of Prague is the beneficiary of the trust and the City Council either serves as the governing body of the trust or appoints the trustees. In addition, as required by state law, all debt obligations incurred by the trust must be approved by two-thirds vote of the City Council. This is considered sufficient imposition of will to include the trust within the City's financial reporting entity. The public trust does not issue separate annual financial statements.

**B. Basis of Accounting and Presentation**

*Government-Wide Financial Statements:*

The statement of net position and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles.

These modifications include adjustments for the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services

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not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements. In addition, property, equipment, and infrastructure assets are not recorded or depreciated, nor is debt reflected as a liability.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the City's taxpayers. The City has the following program revenues in each activity:

- General government: License and permits
- Public safety: Fine revenue and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes

*Governmental Funds:*

The City's governmental funds are comprised of the following:

**Major Funds:**

- **General Fund** - accounts for all activities not accounted for in other special-purpose funds. For external financial statement reporting purposes, the Library account which accounts for special revenues and expenditures of the Prague Public Library, is combined and reported with the General Fund.
- **Emergency Reserve Fund** – a special revenue fund that accounts for revenues constrained for special projects of the City
- **Capital Improvement Fund** – a capital projects fund that accounts for contributions and specific revenue and transfers from other City funds for various capital outlay and improvement projects
- **CDBG Grant Fund** – a capital project fund that accounts for CDBG grant revenues and related expenditures.

**Non-Major Funds (Reported as Other Governmental Funds):**

- **Cemetery Care Fund** – a special revenue fund that accounts for 12.5 percent of cemetery revenue restricted by State law for cemetery capital improvements and other cemetery revenues
- **E-911 Fund** – a special revenue fund that accounts for E-911 revenues for E-911 services
- **Street Improvement Sales Tax Fund** – a capital project fund that accounts for voter restricted sales tax revenue, contributions and specific revenues, and transfers from other City funds for various street capital projects as the City Council may designate
- **Fire Fund**– a capital project fund that accounts for the voter restricted sales tax revenue from previous years that is to be used by or for the City of Prague fire department
- **Airport Grant Fund**– a capital project fund that accounts for the airport grant revenues and related projects

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The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is not provided.

*Proprietary Fund:*

The City's proprietary fund is comprised of the following:

- Prague Public Works Authority (PPWA) – accounts for the operation of the electric, water, wastewater, and sanitation activities

The proprietary fund is reported on a modified cash basis, as defined above.

For purposes of the statement of revenues, expenses and changes in fund net position, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

**C. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts.

Investments consist of long-term certificates of deposits, reported at cost, and shares of a government obligation mutual fund reported at the current fund share price, which also represents its fair value.

**D. Compensated Absences**

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 8.

**E. Fund Balances and Net Position**

*Fund Statements:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

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- a. Nonspendable – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. Committed – included amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city’s highest level of decision-making authority. The City’s highest level of decision-making authority is made by ordinance.
- d. Assigned – includes amounts that are constrained by the city’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by city council action or management decision when the city council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
- e. Unassigned – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

It is the City’s policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The City’s policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net position is displayed in two components:

- a. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.

	<b>Other Purposes</b>
<b>Restricted Net Position - Governmental Activities:</b>	
General Fund - Healthy Communities Grant	\$ 2,000
Library Fund	10,346
E911 Fund	2,984
Fire Fund	32,147
Emergency Reserve Fund	634,536
Capital Improvement Fund	181,484
Airport Grant Fund	12,752
CDBG Grant Fund	13,427
	<b>\$ 889,676</b>

- b. *Unrestricted net position* - All other remaining net position that does not meet the definition of “restricted.”

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

#### **F. Internal and Interfund Balances and Transfers**

The City’s policy is to eliminate interfund transfers and balances in the statement of activities and net position to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

#### **H. New Accounting Pronouncements**

The City implemented the following accounting standards during the fiscal year ended June 30, 2013:

*Governmental Accounting Standards Board Statement No. 60 – Accounting and Financial Reporting for Service Concession Arrangements* – This had no impact on the city’s financial report.

*Governmental Accounting Standards Board Statement No. 61 – The Financial Reporting Entity: Omnibus* – This had no impact on the city’s financial report.

*Governmental Accounting Standards Board Statement No. 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* – A few sentences were removed from “Section B – Proprietary Funds” note disclosure to eliminate references to FASB pronouncements and APB opinions issued on or before November 30, 1989.

*Governmental Accounting Standards Board Statement No. 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – The only change required from the early implementation of this statement is changing the words “Net Assets” in the city’s financial report to “Net Position”.

*Governmental Accounting Standards Board Statement No. 65 – Items Previously Reported as Assets and Liabilities* – This had no impact on the city’s financial report.

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**2. Deposits and Investments**

For the year ended June 30, 2013, the City recognized \$1,687 of investment income. At June 30, 2013, the primary government held the following deposits and investments:

Type	Maturities	Carrying Value
<b>Deposits:</b>		
Demand deposits		\$ 1,830,325
Petty cash		1,594
Time deposit	10/17/2013	10,000
<b>Total deposits and investments</b>		<b>\$ 1,841,919</b>
 <b>Reconciliation to Statement of Net Position:</b>		
Cash and cash equivalents		\$ 1,831,919
Investments		10,000
		<b>\$ 1,841,919</b>

*Custodial Credit Risk*

Exposure to custodial credit related to deposits exists when the City holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the City's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the City holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

The City's policy as it relates to custodial credit risk is to comply with state law and secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the City must have a written collateral agreement approved by the board of directors or loan committee. At June 30, 2013, the City deposits were adequately secured and not exposed to custodial risk.

*Investment Credit Risk*

The City limits its investments to those allowed in state law applicable to municipalities. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investments by reporting the credit quality ratings of investments in debt securities as determined by nationally recognized statistical rating organizations—rating agencies—as of the year end. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and

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do not require disclosure of credit quality. As noted in the schedule of deposits and investments above, at June 30, 2013, the City had no marketable investments.

*Investment Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City has no investment policy that limits based on maturity. The City discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. As noted in the schedule of deposits and investments above, at June 30, 2013, the investments were limited to a certificate of deposit with a maturity of no later than October 2013.

*Concentration of Investment Credit Risk*

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the City (any over 5% are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The City has no investment policy regarding concentration of credit risk. At June 30, 2013, the City had no concentration of credit risk as defined above.

*Restricted cash and Investments* – The amounts reported as restricted assets on the statement of net position are comprised of amounts restricted for utility deposits, debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2013 are as follows:

	Cash and cash equivalents
Utility Deposits	\$ 54,366
Water Sewer Account	161,577
<b>Total</b>	<b>\$ 215,943</b>

**3. Sales Tax Revenue**

Sales tax revenue represents a 4 cent local tax on each dollar of taxable sales within the city, of which one cent is voter restricted for street improvements (25% of 1 cent); for the Emergency Reserve fund (25% of 1 cent); and for capital needs (50% of 1 cent) in accordance with a City ordinance. Three cents of the sales tax is received and recorded in the General Fund for general operations. The restricted sales tax is recorded directly into the respective funds in accordance with Ordinance 361.

**4. Property Tax Levy**

The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters and to pay judgments rendered against the City.

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**5. Internal and Interfund Balances and Transfers**

Interfund balances at June 30, 2013, were as follows:

Due From	Due To	Amount	Nature of Balance
PPWA	General Fund	328	Deposited in wrong fund
Street Improvement Sales Tax Fund	General Fund	6,673	Deposited in wrong fund
General Fund	PPWA	5,052	Reclass of due to and due from
Total		<u>\$ 12,053</u>	

**Reconciliation to Fund Financial Statements:**

	Due From	Due To	Net Internal Balances
Governmental Funds	\$ 11,725	\$ (7,001)	\$ 4,724
Proprietary Funds	328	(5,052)	(4,724)
Total	<u>\$ 12,053</u>	<u>\$ (12,053)</u>	<u>\$ -</u>

Transfers between funds and legal entities are comprised of the following:

Transfer From	Transfer To	Amount	Purpose of Transfer
PPWA	General Fund	\$ 200,000	Operating subsidy
Street Improvement Sales Tax Fund	CDBG Grant Fund	130,000	Grant matching amount
Capital Improvement Fund	Airport Fund	19,600	Grant matching amount
PPWA	E911 Fund	18,000	Operating subsidy
PPWA	Fire Fund	40,000	Operating subsidy
PPWA	Airport Fund	15,000	Grant matching amount
Total		<u>\$ 422,600</u>	

**Reconciliation to Fund Financial Statements:**

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 422,600	\$ (149,600)	\$ 273,000
Proprietary Funds	-	(273,000)	(273,000)
Total	<u>\$ 422,600</u>	<u>\$ (422,600)</u>	<u>\$ -</u>

**Reconciliation to Statement of Activities:**

Net Transfers	\$ 273,000
Transfer from Governmental Activities to Business-Type Activities	(131,843)
Transfers - internal activity	<u>\$ 141,157</u>

**6. Risk Management**

The City and its public trust are exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance for all risks. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**7. Employee Retirement Plan Participation**

The City of Prague participates in three pension or retirement plans:

1. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan
2. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost-sharing plan
3. Oklahoma Municipal Retirement Fund Defined Contribution Plan (OMRF-DCP) – an agent multiple-employer defined contribution plan

*Firefighter Pension System:*

*Plan Summary Information.* The City of Prague, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter’s Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

*Funding Policy.* OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The City is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2011	\$1,320	\$1,320
2012	\$1,380	\$1,380
2013	\$1,404	\$1,404

*OPPRS:*

*Plan Summary Information.* The City of Prague, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Police Pension and Retirement System (OPPRS). The OPPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the City must participate in the plan if they employ a certain number of fulltime police officers.

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The OPPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OPPRS  
1001 N.W. 63<sup>rd</sup> St., Suite 305  
Oklahoma City, OK 73116-7335

*Funding Policy.* The City is required by state law to contribute 13% of covered payroll per year for each police officer. Employees contribute 8% of covered payroll. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The OPPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2011	\$24,706	\$24,706
2012	\$30,709	\$30,709
2013	\$25,004	\$25,004

*Oklahoma Municipal Retirement Fund*

The City provides a pension benefit for all of its full-time employees with the exception of the fire and police departments, through a defined contribution plan with the Oklahoma Municipal Retirement Fund. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. Employee contributions were equal to 2.5% of total earnings with employer contributions equal to 4% of the employee's total salary each month. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after ten years continuous service.

OMRF issues separate plan financial statements which may be obtained by contacting the Oklahoma Municipal Retirement Fund, 525 Central Park Dr., Suite 320, Oklahoma City, Oklahoma 73105.

Contributions for the last three years are as follows:

<u>Fiscal Year</u>	<u>Employee Contribution</u>	<u>Employer Contribution</u>
2011	\$17,471	\$27,961
2012	\$17,427	\$27,883
2013	\$18,596	\$29,753

**8. Commitments and Contingencies**

*Long-term Debt Commitments:*

At June 30, 2013, the PPWA reported the following as long-term debt commitments:

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*Prague Public Works Authority:*

Long-term obligations payable from revenues generated by or pledged to PPWA includes the following:

Notes Payable:

\$285,000 note payable for the purchase of the Wrangler Building, payable in monthly installments, with a variable interest rate of prime, final payment due November 2022.	\$ 163,939
\$300,000 note payable for the remodel of the Wrangler Building, payable in monthly installments of \$1,250, with a 0% interest rate, final payment due November 2023.	168,750
OWRB Promissory Note dated September 26, 2001, original amount \$1,650,000, due in semi-annual principal installments each March 15 and September 15, final installment due March 2022, with an annual interest rate of 1.58% plus a .5% administrative fee, note is secured by a pledge of net utility revenues and a mortgage on the facilities.	890,597
\$125,000 note payable for a waterline relocation, payable in 240 monthly installments of \$521 with an annual interest rate of 0%, final payment due January 2019	39,584
\$260,000 note payable for the purchase of city hall building, payable in 119 Monthly payments of \$2,774 with annual interest rate of 5.0%, final payment due October 2016	100,034
\$500,000 note payable for the purchase of smart meters, payable in 119 Monthly payments of \$5,171 with annual interest rate of 4.35%, final payment due July 2022	<u>460,160</u>
Balance Outstanding at June 30, 2013	<u>\$ 1,823,064</u>

*Debt Service Requirements to Maturity*

Year Ended June 30,	Business-type Notes Payable	
	Principal	Interest
2014	\$ 205,411	\$ 53,033
2015	199,910	46,808
2016	206,791	40,350
2017	190,659	33,865
2018	186,425	28,412
2019-2023	815,118	55,737
2024-2025	<u>18,750</u>	<u>-</u>
	<u>\$ 1,823,064</u>	<u>\$ 258,205</u>

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**Pledge of Future Revenues**

*Utility Net Revenues Pledge* – The City has pledged future net water and sewer revenues to repay \$1,650,000 of the 2001 Series OWRB SRF Promissory Note. Proceeds from the note provided financing for utility system capital assets. The note is payable through 2022. The total principal and interest payable for the remainder of the life of this note is \$1,001,749. The note is payable from the above-mentioned utility net revenues. The debt service payments on the note this year were \$99,020 which was 64% of pledged net utility revenues of \$154,550.

*Compensated Absences:*

As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation, sick and comp leave) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2013, is summarized as follows:

- City and PPWA– accrued compensated absences \$143,914

*Litigation:*

The City is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a City "Sinking Fund" for the payment of any court assessed judgment rendered against the City. These statutory provisions do not apply to the City's public trust Authorities. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.

*Federal and State Award Programs:*

The City of Prague participates in various federal or state grant/loan programs from year to year. In 2013, the City's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan.

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**SUPPLEMENTARY AND OTHER INFORMATION**

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2013**

	GENERAL FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	\$	-	\$ 47,505	\$ 47,505
<b>Resources (Inflows):</b>				
Taxes	850,000	865,000	1,269,205	404,205
Intergovernmental	45,000	65,000	94,850	29,850
Charges for services	35,100	35,100	18,455	(16,645)
Fines and Forfeitures	70,000	70,000	55,778	(14,222)
Licenses and Permits	2,500	2,500	3,828	1,328
Investment Income	100	100	336	236
Miscellaneous	111,200	111,200	86,085	(25,115)
Transfers In	400,000	400,000	200,000	(200,000)
<b>Total Resources (Inflows)</b>	<u>1,513,900</u>	<u>1,548,900</u>	<u>1,728,537</u>	<u>179,637</u>
<b>Amounts available for appropriation</b>	<u>\$ 1,513,900</u>	<u>\$ 1,548,900</u>	<u>\$ 1,776,042</u>	<u>\$ 227,142</u>
<b>Charges to Appropriations (Outflows):</b>				
General government	222,605	233,105	208,685	24,420
Public safety	970,363	932,863	919,873	12,990
Highways and streets	47,459	47,459	38,112	9,347
Culture and recreation	259,007	315,007	309,419	5,588
Airport	12,200	18,200	16,887	1,313
<b>Total Charges to Appropriations</b>	<u>1,511,634</u>	<u>1,546,634</u>	<u>1,492,976</u>	<u>53,658</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 2,266</u>	<u>\$ 2,266</u>	<u>\$ 283,066</u>	<u>\$ 280,800</u>
<b>Reconciliation to Statement of Revenues, Expenditures, and Change in Fund Balance:</b>				
Library Account Balance			<u>10,402</u>	
<b>Total General Fund Fund Balance</b>			<u>\$ 293,468</u>	

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	<b>EMERGENCY RESERVE FUND</b>			
	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>Beginning Budgetary Fund Balance:</b>	\$ 556,500	\$ 556,500	\$ 554,780	\$ (1,720)
<b>Resources (Inflows):</b>				
Taxes	62,500	68,750	85,664	16,914
Investment Income	4,000	500	594	94
<b>Total Resources (Inflows)</b>	<u>66,500</u>	<u>69,250</u>	<u>86,258</u>	<u>17,008</u>
<b>Amounts available for appropriation</b>	<u>\$ 623,000</u>	<u>\$ 625,750</u>	<u>\$ 641,038</u>	<u>\$ 15,288</u>
<b>Charges to Appropriations (Outflows):</b>				
Public Safety	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Charges to Appropriations</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$ 623,000</u>	<u>\$ 625,750</u>	<u>\$ 641,038</u>	<u>\$ 15,288</u>

**Footnotes to Budgetary Comparison Schedules:**

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriations within a fund require City Manager's approval, while supplemental appropriations require City Council approval.

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**NonMajor Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2013**

	Cemetery Care Fund	E911 Fund	Street Improvement Sales Tax Fund	Airport Grant Fund	Fire Fund	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 4,324	\$ 20,984	\$ 17,672	\$ 12,752	\$ 32,200	\$ 87,932
Due from other funds	-	-	6,673	-	-	6,673
Total assets	<u>4,324</u>	<u>20,984</u>	<u>24,345</u>	<u>12,752</u>	<u>32,200</u>	<u>94,605</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Due to other funds	-	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:						
Restricted for:						
Fire	-	-	-	-	32,147	32,147
E911	-	2,984	-	-	-	2,984
Airport	-	-	-	12,752	-	12,752
Assigned to:						
Cemetery	4,324	-	-	-	-	4,324
E911	-	18,000	-	-	-	18,000
Streets	-	-	24,345	-	-	24,345
Fire	-	-	-	-	53	53
Total fund balances	<u>4,324</u>	<u>20,984</u>	<u>24,345</u>	<u>12,752</u>	<u>32,200</u>	<u>94,605</u>
Total liabilities and fund balances	<u>\$ 4,324</u>	<u>\$ 20,984</u>	<u>\$ 24,345</u>	<u>\$ 12,752</u>	<u>\$ 32,200</u>	<u>\$ 94,605</u>

**NonMajor Governmental Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2013**

	Cemetery Care Fund	E911 Fund	Street Improvement Sales Tax Fund	Airport Grant Fund	Fire Fund	Total-Other Governmental Funds
<b>REVENUES</b>						
Taxes	\$ -	\$ -	\$ 85,664	\$ -	\$ -	\$ 85,664
Intergovernmental	-	-	56,144	-	-	56,144
Charges for services	3,580	-	-	-	-	3,580
Investment income	8	-	158	-	22	188
Total revenues	<u>3,588</u>	<u>-</u>	<u>141,966</u>	<u>-</u>	<u>22</u>	<u>145,576</u>
<b>EXPENDITURES</b>						
Current:						
Highways and streets	-	-	6,136	-	-	6,136
Cemetery	9,556	-	-	-	-	9,556
Capital Outlay	-	-	36,228	22,041	55,924	114,193
Total Expenditures	<u>9,556</u>	<u>-</u>	<u>42,364</u>	<u>22,041</u>	<u>55,924</u>	<u>129,885</u>
Excess (deficiency) of revenues over expenditures	<u>(5,968)</u>	<u>-</u>	<u>99,602</u>	<u>(22,041)</u>	<u>(55,902)</u>	<u>15,691</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	18,000	-	34,600	40,000	92,600
Transfers out	-	-	(130,000)	-	-	(130,000)
Total other financing sources and uses	<u>-</u>	<u>18,000</u>	<u>(130,000)</u>	<u>34,600</u>	<u>40,000</u>	<u>(37,400)</u>
Net change in fund balances	(5,968)	18,000	(30,398)	12,559	(15,902)	(21,709)
Fund balances - beginning	10,292	2,984	54,743	193	48,102	116,314
Fund balances - ending	<u>\$ 4,324</u>	<u>\$ 20,984</u>	<u>\$ 24,345</u>	<u>\$ 12,752</u>	<u>\$ 32,200</u>	<u>\$ 94,605</u>

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**Schedule of Expenditures of Federal and State Awards – Year Ended June 30, 2013**

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Agency or Pass Thru Number	Program or Award Amount	Federal Expenditures
<b>FEDERAL ASSISTANCE:</b>				
<b>U.S. DEPARTMENT OF HOMELAND SECURITY:</b>				
Passed through Oklahoma Dept. of Civil Emergency Management: FEMA-Emergency Management Preparedness Grant	97.042	EMPG 12	\$ 10,000	\$ 2,500
Total U.S. Department of the Homeland Security			<u>10,000</u>	<u>2,500</u>
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</b>				
Passed through Oklahoma Department of Commerce: Community Development Block Grant	14.228	14259 CDBG-CIP 10	17,000	9,900
Community Development Block Grant	14.228	15105-CDBG-12	150,000	141,000
Total U.S. Department of Housing and Urban Development			<u>167,000</u>	<u>150,900</u>
<b>U.S. DEPARTMENT OF JUSTICE:</b>				
Passed through Oklahoma District Attorneys Council: Justice Assistance Grant	16.738	2010-DJBX-0376	9,662	9,662
<b>TOTAL FEDERAL ASSISTANCE</b>			<u>\$ 186,662</u>	<u>\$ 163,062</u>

Federal/State Grantor/Pass through agency Grantor/Program Title	Agency or Pass Thru Number	Program or Award Amount	State Expenditures
<b>STATE ASSISTANCE:</b>			
<b>OKLAHOMA DEPARTMENT OF LIBRARIES:</b>			
State Aid		\$ 5,431	\$ 5,431
Total Oklahoma Department of Libraries		<u>5,431</u>	<u>5,431</u>
<b>COEDD:</b>			
REAP Grant	12-13 REAP Fund 10	40,000	34,912
Total COEDD		<u>40,000</u>	<u>34,912</u>
<b>OKLAHOMA TOBACCO SETTLEMENT ENDOWMENT TRUST:</b>			
Healthy Communities Grant		2,000	-
Total Oklahoma Tobacco Settlement Endowment Trust		<u>2,000</u>	<u>-</u>
<b>OKLAHOMA DEPARTMENT OF EMERGENCY MANAGEMENT:</b>			
FEMA Disaster Assistance Grant		2,900	-
Total COEDD		<u>2,900</u>	<u>-</u>
<b>OKLAHOMA DEPARTMENT OF AGRICULTURE:</b>			
Rural Fire Grant		4,484	4,484
Rural Fire Supplemental Grant		20,000	20,000
Total Oklahoma Department of Agriculture		<u>24,484</u>	<u>24,484</u>
<b>TOTAL STATE ASSISTANCE</b>		<u>\$ 74,815</u>	<u>\$ 64,827</u>

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**Debt Service Coverage Schedule**

	<b>2001 SRF OWRB <u>Promissory Note</u></b>
Gross Revenue Available for Debt Service:	
Operating revenues of leased systems	619,619
Interest income	419
Total Gross Revenues Available	620,038
System Operating Expenses	465,488
Net Revenues Available for Debt Service	\$154,550
Debt Service Requirements:	
Maximum annual debt service on all Obligations Payable from Revenues of the System	\$111,888
Coverage	138%
Coverage Requirement	125%

**Schedule of Reserve Account Requirements**

	<b>OWRB Series 2001 SRF Note</b>
Required Balance:	
Revenue Bond Reserve Requirement (1)	\$111,888
Balance in Reserve Account, June 30, 2013	161,577
Excess of Account Balance over Required Balance	\$49,689

(1) Represents the maximum annual principal and interest payments on local note

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**INTERNAL CONTROL AND COMPLIANCE**

**CITY OF PRAGUE, OKLAHOMA  
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**INDEPENDENT AUDITORS' 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 Users of the City of Prague, Oklahoma, Annual Financial Report

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prague, Oklahoma (the "City"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 8, 2014. Our report includes an explanatory paragraph which noted that the financial statements were prepared on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States. Our report also includes an explanatory paragraph disclaiming an opinion on management's discussion and analysis and budgetary comparison information—modified cash basis and an explanatory paragraph to emphasize the adoption of GASB Statements No. 63 and No. 65 by the City.

**Internal Control Over Financial Reporting**

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

(Continued)

**INDEPENDENT AUDITORS' 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, CONTINUED**

**Internal Control Over Financial Reporting, Continued**

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control that we consider to be significant deficiencies, described in the accompanying schedule of findings and questioned cost as Finding 13-1.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City'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*.

**City's Response to Findings**

The City's response to the finding identified in our audit is described in the schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

**Purpose of This Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Finley + Cook, PLLC*

Shawnee, Oklahoma  
April 8, 2014

## CITY OF PRAGUE, OKLAHOMA

### SCHEDULE OF FINDINGS AND RESPONSES

*Year Ended June 30, 2013*

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#### SIGNIFICANT DEFICIENCIES

##### **13-1. Segregation of Duties**

*Criteria:* Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

*Condition:* The City currently has a lack of segregation of duties in the procedures performed by the utility clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment. All employees have a key and access to the drop box.

*Cause:* The City's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

*Effect:* Without proper segregation of duties, the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis increases.

*Recommendation:* Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Regarding utility clerk duties, such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews. Regarding the lockbox, a key and access could be given to a limited number of employees.

*Management's Response:* While true segregation of duties is not possible with a limited number of employees, the City has implemented procedures to help alleviate the segregation problem. While the Utility Clerk does handle the complete process of preparing and sending the bills, all adjustments are approved by the City Manager, the bill calculation is reviewed by the City Manager for accuracy and anomalies. The cash collection reports are turned over and reviewed daily by the City Clerk. Any cash payments received in the night drop are verified by two employees. Management is aware of the issues that may arise and is constantly looking for feasible ways to improve and better segregate the duties.

## CITY OF PRAGUE, OKLAHOMA

### FOLLOW-UP ON PRIOR YEAR FINDINGS

*Year Ended June 30, 2013*

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#### SIGNIFICANT DEFICIENCIES

##### **12-1. Segregation of Duties**

*Criteria:* Segregation of duties over custody, bookkeeping, and reconciliation is important to have adequate control over financial assets.

*Condition:* The City currently has a lack of segregation of duties in the procedures performed by the utility clerk and the court clerk. The utility clerk is responsible for all aspects of the utility billing procedures, from the creation of the bill to the collection of the payment. The court clerk is responsible for all aspects of the court fee process, from information received on fines or tickets to collecting the funds and posting to the computer, as well as the ability to make adjustments. All employees have a key and access to the drop box.

*Cause:* The City's limited population and resources result in the inability to provide sufficient staffing to fully segregate incompatible duties.

*Effect:* Without proper segregation of duties, the risk that errors and fraud related to the billing and collection activities could occur and not be detected within a timely basis increases.

*Recommendation:* Efficient segregation of duties in a small city environment is often difficult; however, we feel that the governing body and city management should be aware of the risk associated with this lack of duty segregation and attempt to exercise as much oversight control in these areas as possible and feasible. Regarding utility clerk duties, such control could consist of accounts receivable reconciliation reviews, payment posting report reviews, and utility adjustment reviews. Regarding court clerk duties, such controls could consist of segregation between the processing of information for fines or tickets and the actual collection of fees for such fines or tickets, as well as segregating the ability to make adjustments. Regarding the lockbox, a key and access could be given to a limited number of employees.

*Management's Response:* While total segregation of duties is not possible with a limited number of employees, this past year the City has implemented procedures, putting in place some safeguards to help alleviate the segregation problem. Regarding the utility clerk, all utility adjustments must be reviewed and approved by the City Manager. Regarding the court clerk duties, the court clerk rarely collects the fees for a citation, which is done through the two collection windows, and the utility clerk now enters the citation information into the system. Although adjustments to a fine are rare, we are looking at those adjustments also having to be approved by the City Manager. Management is aware of the issues and is constantly looking for feasible ways to improve and better segregate the duties.

*2013 Follow-up:* Finding repeated in 2013.