

**THE CITY OF PRAGUE,
OKLAHOMA**

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Prague, Oklahoma (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1(B), the City prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position—modified cash basis and cash flows—modified cash basis, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1(B).

As described in Note 1(E) to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), for the year ended June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 20, 2012, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be considered in assessing the results of our audit.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Accounting principles generally accepted in the United States require that the management's discussion and analysis and budgetary comparison information—modified cash basis on pages 7 through 13 and 38 through 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining non-major governmental fund schedules—modified cash basis, the schedule of expenditures of state awards, the schedule of debt service coverage requirements, and the schedule of reserve account requirements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining non-major governmental fund schedules—modified cash basis, the schedules of expenditures of federal and state awards, the schedule of debt service coverage requirements, and the 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 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 financial statements or to the financial statements themselves, and other additional 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.

Finley + Cook, PLLC

Shawnee, Oklahoma
February 20, 2012

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, 2011. 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 assets decreased by \$108,984, and the assets of the City exceed its liabilities at June 30, 2011, by \$1,400,506 (net assets). Of this amount, \$333,647 (unrestricted net assets) is available to meet any of the government's ongoing needs.
- At June 30, 2011, the City's governmental funds reported combined ending fund balances on a modified cash basis of \$851,767.
- At the end of fiscal year 2011, unassigned fund balance on a modified cash basis for the General Fund was \$135,251 or 13.1% 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.

- **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 from the economic resources measurement focus using the modified cash basis of accounting. They present governmental activities separately and combined. For governmental 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 Assets 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 Assets 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 Assets 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. The City's two kinds of funds – *governmental and proprietary* - use different accounting approaches.

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 and current financial resources measurement focus that is different from other funds. 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 reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. 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 24-36 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, and a federal and state award schedule.

THE CITY AS A WHOLE

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

Net Assets (Modified Cash Basis) June 30, 2011

TABLE 1
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	\$ 854	\$ 815	5%	\$ 598	\$ 747	-20%	\$ 1,452	\$ 1,563	-7%
Total assets	<u>854</u>	<u>815</u>	5%	<u>598</u>	<u>747</u>	-20%	<u>1,452</u>	<u>1,563</u>	-7%
Current liabilities	3	3	0%	49	50	-2%	52	53	-2%
Total liabilities	<u>3</u>	<u>3</u>	0%	<u>49</u>	<u>50</u>	-2%	<u>52</u>	<u>53</u>	-2%
Net assets									
Restricted	687	627	10%	380	294	30%	1,067	921	16%
Unrestricted	164	186	-12%	169	403	-58%	333	589	-44%
Total net assets	<u>\$ 851</u>	<u>\$ 813</u>	5%	<u>\$ 549</u>	<u>\$ 697</u>	-21%	<u>\$ 1,400</u>	<u>\$ 1,509</u>	-7%

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities decreased \$108,984. This is due to the business-type activities having a decrease in cash of \$149,000. The decrease in cash is a result of an increase of \$105,000 in the cost to purchase electricity. The Authority also transferred \$120,000 to the CDBG Grant Fund.

**Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2011**

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

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Revenues									
Charges for service	\$ 219	\$ 221	-1%	\$ 2,649	\$ 2,577	3%	\$ 2,868	\$ 2,798	3%
Operating grants and contributions	313	114	175%	-	-	-	313	114	175%
Capital grants and contributions	532	59	802%	-	-	-	532	59	802%
Taxes	1,050	1,030	2%	-	-	-	1,050	1,030	2%
Intergovernmental revenue	35	34	3%	-	-	-	35	34	3%
Investment income	6	7	-14%	2	1	100%	8	8	0%
Miscellaneous	79	156	-49%	60	60	0%	139	216	-36%
Total revenues	2,234	1,621	38%	2,711	2,638	3%	4,945	4,259	16%
Expenses									
General government	657	266	147%	-	-	-	657	266	147%
Public safety	946	878	8%	-	-	-	946	878	8%
Streets	335	101	232%	-	-	-	335	101	232%
Culture, parks and recreation	253	250	1%	-	-	-	253	250	1%
Airport	259	58	347%	-	-	-	259	58	347%
Cemetery	4	4	0%	-	-	-	4	4	0%
Interest on long-term debt	2	7	-71%	-	-	-	2	7	-71%
Electric	-	-	-	1,923	1,792	7%	1,923	1,792	7%
Water	-	-	-	195	219	-11%	195	219	-11%
Wastewater	-	-	-	272	281	-3%	272	281	-3%
Sanitation	-	-	-	209	212	-1%	209	212	-1%
Total expenses	2,456	1,564	57%	2,599	2,504	4%	5,055	4,068	24%
Excess (deficiency) before transfers	(222)	57	-489%	112	134	-16%	(110)	191	-158%
Transfers	260	131	98%	(260)	(131)	98%	-	-	
Change in net assets	38	188	-80%	(148)	3	-5033%	(110)	191	-158%
Beginning net assets	813	625	30%	697	694	0%	1,510	1,319	14%
Ending net assets	\$ 851	\$ 813	5%	\$ 549	\$ 697	-21%	\$ 1,400	\$ 1,510	-7%

The governmental activities operating and capital grants and contributions increased \$672,049. The grants received this year included an energy grant, airport grant, CDBG grant, and a HOME grant. These grants make up a majority of the revenue that resulted in the increase. See schedules on page 42 and 49 for more detail.

The cause for the change in transfers and net assets is noted on the previous page.

Governmental Activities

The City's governmental activities had an increase in net assets of \$39,022.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2011	2010		2011	2010	
General government	\$ 657	\$ 266	147%	(\$298)	(\$211)	41%
Public safety	946	878	8%	(720)	(636)	13%
Streets	335	101	232%	(128)	(75)	71%
Culture, parks and recreation	253	250	1%	(247)	(245)	1%
Airport	259	58	347%	(12)	(15)	-20%
Cemetery	4	4	0%	15	19	-21%
Interest on long-term debt	2	7	-71%	(2)	(7)	-71%
Total	\$ 2,456	\$ 1,564	57%	(\$1,392)	(\$1,170)	19%

The significant increase in the total expenses for services is primarily due to grant expenditures from the U.S. Department of Housing and Urban Development in the amount of \$369,360 and Federal Aviation Administration grant expenditures in the amount of \$247,679.

Business-type Activities

The business-type activities had a decrease in net assets of \$148,006. See explanation on page 10.

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2011	2010		2011	2010	
Electric	\$ 1,923	\$ 1,792	7%	\$ (89)	\$ (22)	305%
Water	195	219	-11%	108	78	38%
Wastewater	272	281	-3%	(11)	(12)	-8%
Sanitation	209	212	-1%	43	29	48%
Total	\$ 2,599	\$ 2,504	4%	\$ 51	\$ 73	-30%

The decrease in the net revenue is primarily due to the electric expense increasing \$132,136 from the prior year and revenues only increasing \$65,046 to cover this expense.

A FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As the City completed its 2011 fiscal year, the governmental funds reported a combined fund balance of \$851,767.

Other fund highlights include:

- For the year ended June 30, 2011, the Emergency Reserve Fund's total fund balance increased by \$65,404.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual budgetary basis revenues under final estimates by \$111,429 or an 8% negative variance. General Fund actual expenditures were under final appropriations by \$92,674 or 7% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2012 budget is fairly consistent with the 2011 budget.

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.

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

BASIC FINANCIAL STATEMENTS – STATEMENT OF NET ASSETS AND ACTIVITIES

CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011

Statement of Net Assets (Modified Cash Basis)– June 30, 2011

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 846,490	\$ 596,027	\$ 1,442,517
Investments	10,000	-	10,000
Internal balances	(2,103)	2,103	-
Total Assets	<u>854,387</u>	<u>598,130</u>	<u>1,452,517</u>
LIABILITIES			
Due to other governments	464	4,551	5,015
Due to depositors	-	44,840	44,840
Due to others	2,156	-	2,156
Total liabilities	<u>2,620</u>	<u>49,391</u>	<u>52,011</u>
NET ASSETS			
Restricted for:			
Debt service	-	379,481	379,481
Other purposes (Note 1.E.)	687,378	-	687,378
Unrestricted	164,389	169,258	333,647
Total net assets	<u>\$ 851,767</u>	<u>\$ 548,739</u>	<u>\$ 1,400,506</u>

See accompanying notes to these financial statements.

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 656,582	\$ 3,012	\$ 230,625	\$ 125,000	\$ (297,945)	\$ -	\$ (297,945)
Public Safety	945,795	196,907	19,398	9,105	(720,385)	-	(720,385)
Highways and streets	335,304	-	56,988	150,000	(128,316)	-	(128,316)
Culture and Recreation	253,465	-	6,357	-	(247,108)	-	(247,108)
Cemetery	4,171	18,834	-	-	14,663	-	14,663
Airport	259,274	-	-	247,679	(11,595)	-	(11,595)
Interest on Long-term debt	1,690	-	-	-	(1,690)	-	(1,690)
Total governmental activities	2,456,281	218,753	313,368	531,784	(1,392,376)	-	(1,392,376)
Business-type activities:							
Electric	1,923,465	1,834,267	-	-	-	(89,198)	(89,198)
Water	194,832	302,737	-	-	-	107,905	107,905
Sewer	272,380	261,770	-	-	-	(10,610)	(10,610)
Sanitation	208,591	251,406	-	-	-	42,815	42,815
Administration	-	-	-	-	-	-	-
Total business-type activities	2,599,268	2,650,180	-	-	-	50,912	50,912
Total primary government	5,055,549	2,868,933	313,368	531,784	(1,392,376)	50,912	(1,341,464)
General revenues:							
Taxes:							
Sales and use taxes					\$ 1,024,688	\$ -	\$ 1,024,688
Franchise taxes and public service taxes					24,533	-	24,533
E-911 taxes					1,800	-	1,800
Intergovernmental revenue not restricted to specific programs					35,461	-	35,461
Unrestricted investment earnings					6,161	1,531	7,692
Miscellaneous					78,797	59,509	138,306
Transfers					259,958	(259,958)	-
Total general revenues and transfers					1,431,398	(198,918)	1,232,480
Change in net assets					39,022	(148,006)	(108,984)
Net assets - beginning					812,745	696,745	1,509,490
Net assets - ending					\$ 851,767	\$ 548,739	\$ 1,400,506

See accompanying notes to these financial statements.

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

	General Fund	Emergency Reserve Fund	Capital Improvement Fund	CDBG Grant Fund	Airport Grant Fund	Other Governmental Funds	Total Governmental Funds
ASSETS							
Cash and cash equivalents	143,642	\$ 489,502	\$ 102,608	\$ 1,918	\$ 721	\$ 108,099	\$ 846,490
Investments	10,000	-	-	-	-	-	10,000
Due from other funds	195	-	-	-	-	3,476	3,671
Total assets	153,837	489,502	102,608	1,918	721	111,575	860,161
LIABILITIES AND FUND BALANCES							
Liabilities							
Due to other governments	464	-	-	-	-	-	464
Due to others	2,156	-	-	-	-	-	2,156
Due to other funds	5,593	-	-	-	-	181	5,774
Total liabilities	8,213	-	-	-	-	181	8,394
Fund balances							
Restricted for							
Fire	-	-	-	-	-	48,071	48,071
E911	-	-	-	-	-	2,984	2,984
Library	10,346	-	-	-	-	-	10,346
Cemetery	-	-	-	-	-	9,376	9,376
Streets	-	-	-	-	-	26,614	26,614
Airport	-	-	-	-	721	-	721
Special project (emergency reserve fund)	-	484,925	-	-	-	-	484,925
Capital projects	-	-	102,423	-	-	-	102,423
CDBG Grant	-	-	-	1,918	-	-	1,918
Assigned to							
Cemetery	-	-	-	-	-	2,302	2,302
Library	27	-	-	-	-	-	27
Streets	-	-	-	-	-	22,047	22,047
Special project (emergency reserve fund)	-	4,577	-	-	-	-	4,577
Capital projects	-	-	185	-	-	-	185
Unassigned							
	135,251	-	-	-	-	-	135,251
Total fund balances	145,624	489,502	102,608	1,918	721	111,394	851,767
Total liabilities and fund balances	\$ 153,837	\$ 489,502	\$ 102,608	\$ 1,918	\$ 721	\$ 111,575	\$ 860,161

See accompanying notes to these financial statements.

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2011**

	<u>General Fund</u>	<u>Emergency Reserve Fund</u>	<u>Capital Improvement Fund</u>	<u>CDBG Grant Fund</u>	<u>Airport Grant Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES							
Taxes	\$ 805,811	\$ 60,827	\$ 121,653	\$ -	\$ -	\$ 62,730	\$ 1,051,021
Intergovernmental	80,946	-	-	275,000	247,679	276,988	880,613
Charges for services	23,765	-	-	-	-	4,559	28,324
Fines and forfeitures	59,459	-	-	-	-	-	59,459
Licenses and permits	2,937	-	-	-	-	-	2,937
Investment income	1,280	4,577	185	-	-	119	6,161
Miscellaneous	56,700	-	-	-	-	22,087	78,797
Total revenues	<u>1,030,898</u>	<u>65,404</u>	<u>121,838</u>	<u>275,000</u>	<u>247,679</u>	<u>366,493</u>	<u>2,107,312</u>
EXPENDITURES							
Current:							
General government	197,270	-	-	-	-	220,000	417,270
Public Safety	857,731	-	-	-	-	5,400	863,131
Highway and streets	24,939	-	-	-	-	11,458	36,397
Culture and recreation	246,874	-	-	-	-	-	246,874
Cemetery	-	-	-	-	-	4,171	4,171
Airport	11,035	-	-	-	-	-	11,035
Capital Outlay	29,625	-	88,056	395,767	248,239	75,867	837,554
Debt Service:							
Principal	-	-	-	-	-	38,159	38,159
Interest and other charges	-	-	-	-	-	1,690	1,690
Total Expenditures	<u>1,397,474</u>	<u>-</u>	<u>88,056</u>	<u>395,767</u>	<u>248,239</u>	<u>356,745</u>	<u>2,456,281</u>
Excess (deficiency) of revenues over expenditures	<u>(336,576)</u>	<u>65,404</u>	<u>33,782</u>	<u>(120,767)</u>	<u>(560)</u>	<u>9,748</u>	<u>(348,969)</u>
OTHER FINANCING SOURCES (USES)							
Transfers in	300,000	-	-	120,000	-	-	420,000
Transfers out	-	-	(32,009)	-	-	-	(32,009)
Total other financing sources and uses	<u>300,000</u>	<u>-</u>	<u>(32,009)</u>	<u>120,000</u>	<u>-</u>	<u>-</u>	<u>387,991</u>
Net change in fund balances	(36,576)	65,404	1,773	(767)	(560)	9,748	39,022
Fund balances - beginning	182,200	424,098	100,835	2,685	1,281	101,646	812,745
Fund balances - ending	<u>\$ 145,624</u>	<u>\$ 489,502</u>	<u>\$ 102,608</u>	<u>\$ 1,918</u>	<u>\$ 721</u>	<u>\$ 111,394</u>	<u>\$ 851,767</u>

See accompanying notes to these financial statements.

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	<u>Prague Public Works Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 182,262
Restricted cash and cash equivalents	413,765
Due from other funds	2,103
Total assets	<u>598,130</u>
 LIABILITIES	
Current Liabilities:	
Due to other governments	4,551
Due to depositors	44,840
Total current liabilities	<u>49,391</u>
 NET ASSETS	
Restricted for debt service	379,481
Unrestricted	169,258
Total net assets	<u>\$ 548,739</u>

See accompanying notes to these financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011

	<u>Prague Public Works Authority</u>
Operating Revenues:	
Charges for services:	
Electric	\$ 1,827,617
Water	285,088
Sewer	260,821
Sanitation	241,303
Landfill charges	9,224
Lake	16,612
Ambulance Subsidy	128,033
Miscellaneous	9,515
Total operating revenues	<u>2,778,213</u>
 OPERATING EXPENSES	
Municipal Garage	38,714
Administration	278,396
Electric	1,582,745
Water	46,997
Sewer	145,515
Sanitation	163,605
Lake	42,526
Hospital	6,044
Total Operating Expenses	<u>2,304,542</u>
Operating income	<u>473,671</u>
 NON-OPERATING REVENUES (EXPENSES)	
Investment income	1,531
Artic Temp revenue	39,509
OMPA Cups	20,000
Capital outlay	(8,384)
Debt service:	
Principal retirement	(232,428)
Interest expense and fees	(53,914)
Total non-operating revenue (expenses)	<u>(233,686)</u>
Income before contributions and transfers	239,985
 Transfers in	 32,009
Transfers out	<u>(420,000)</u>
Change in net assets	(148,006)
Total net assets - beginning	696,745
Total net assets - ending	<u>\$ 548,739</u>

See accompanying notes to these financial statements.

CITY OF PRAGUE, OKLAHOMA
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Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011

	<u>Prague Public Works Authority</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,778,213
Payments to suppliers	(1,741,706)
Payments to employees	(562,354)
Payment to other fund	(3,878)
Payment of customer meter deposits	(1,583)
Other receipts	59,509
Net cash provided by operating activities	528,201
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	32,009
Transfers to other funds	(420,000)
Net cash provided by (used in) noncapital financing activities	(387,991)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(8,384)
Principal paid on debt	(232,428)
Interest and fiscal agent fees paid on debt	(53,914)
Net cash provided by (used in) capital and related financing activities	(294,726)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	1,531
Net cash provided by investing activities	1,531
Net increase (decrease) in cash and cash equivalents	(152,985)
Balances - beginning of year	749,012
Balances - end of year	\$ 596,027
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 182,262
Restricted cash and cash equivalents - current	413,765
Total cash and cash equivalents, end of year	\$ 596,027
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	\$ 473,671
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Miscellaneous revenue	59,509
Change in assets and liabilities:	
Due to other funds	(3,878)
Due to other governments	482
Deposits subject to refund	(1,583)
Net cash provided by operating activities	\$ 528,201

See accompanying notes to these financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Statement of Net Assets and Activities:

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*" 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 four separate legal entities reported as the primary government and component units.

- **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 assets 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

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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 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

For business-type activities, Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as they apply to the modified cash basis, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

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 Fund (previously reported as a non-major special revenue fund) which accounts for special revenues and expenditures of the Prague Public Library, is now 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.
- **Airport Grant Fund**– a capital project fund that accounts for the airport grant revenues and related projects

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

- **Cemetery Care Fund** – a special revenue fund that accounts for 25 percent of cemetery revenue restricted by State law for cemetery capital improvements
- **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 contributions and specific revenues and transfers from other City funds for various street capital projects as the City Council may designate

- **HOME Grant Fund** – a capital project fund that accounts for the HOME grant money and expenditures.
- **Fire Fund**– a capital project fund that accounts for the voter restricted sales tax revenue that is to be used by or for the City of Prague fire department

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. 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 the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Funds:

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

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

The proprietary funds are reported on a modified cash basis, as defined above, and economic resources measurement focus. Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

For purposes of the statement of revenues, expenses and changes in fund net assets, 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 Assets

Fund Statements:

Governmental fund equity is classified as fund balance. Due to the implementation of GASB Statement 54, fund balance is now further classified as nonspendable, restricted, committed, assigned and unassigned. These classifications are defined as:

- 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 assets are displayed in two components:

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

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	Other Purposes
Restricted Net Assets - Governmental Activities:	
Cemetery Care Fund	9,376
Library Fund	10,346
E911 Fund	2,984
Fire Fund	48,071
Street Improvement Sales Tax Fund	26,614
Emergency Reserve Fund	484,925
Capital Improvement Fund	102,423
Airport Grant Fund	721
CDBG Grant Fund	1,918
	687,378

b. *Unrestricted net assets* - All other net assets that do not meet the definition of "restricted."

It is the City's policy to first use restricted net assets prior to the use of unrestricted net assets when expenditures are incurred for purposes for which both restricted and unrestricted net assets 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 assets 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.

2. Deposits and Investments

For the year ended June 30, 2011, the City recognized \$7,692 of investment income. At June 30, 2011, the primary government held the following deposits and investments:

Type	Maturities	Carrying Value
Deposits:		
Demand deposits		\$ 1,441,917
Petty cash		600
Time deposit	10/20/2011	10,000
Total deposits and investments		\$ 1,452,517
 Reconciliation to Statement of Net Assets:		
Cash and cash equivalents		\$ 1,442,517
Investments		10,000
		\$ 1,452,517

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.

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 is 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 do not require disclosure of credit quality. As noted in the schedule of deposits and investments above, at June 30, 2011, 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, 2011, the investments were limited to a certificate of deposit with a maturity of no later than October 2011.

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, 2011, 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 assets are comprised of amounts restricted for debt service, debt reserve, or construction purposes. The restricted assets as of June 30, 2011 are as follows:

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	Cash and cash equivalents
Utility Deposits	\$ 44,840
Water Sewer Account	379,481
Total	\$ 424,321

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 the Prague fire department (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.

5. Internal and Interfund Balances and Transfers

Interfund balances at June 30, 2011, were as follows:

Due From	Due To	Amount	Nature of Balance
General Fund	Cemetery Care	181	Deposited in wrong fund
Street Improvement Sales Tax Fund	General Fund	3,476	Deposited in wrong fund
PPWA	General Fund	2,103	Deposited in wrong fund
Library Fund	General Fund	14	Deposited in wrong fund
Total		\$ 5,774	

Reconciliation to Fund Financial Statements:

	Due From	Due To	Net Internal Balances
Governmental Funds	\$ 3,671	\$ (5,774)	\$ (2,103)
Proprietary Funds	2,103	-	2,103
Total	\$ 5,774	\$ (5,774)	\$ -

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

Transfer From	Transfer To	Amount	Purpose of Transfer
PPWA	General Fund	\$ 300,000	Operating subsidy
Capital Improvement Fund	PPWA	32,009	Operating subsidy
PPWA	CDBG Grant Fund	120,000	Operating subsidy
Total		\$ 452,009	
Reconciliation to Fund Financial Statements:			
	Transfers In	Transfers Out	Net Transfers
Governmental Funds	\$ 420,000	\$ (32,009)	\$ 387,991
Proprietary Funds	32,009	(420,000)	(387,991)
	\$ 452,009	\$ (452,009)	-
Reconciliation to Statement of Activities:			
Net Transfers			\$ 387,991
Transfer from Governmental Activities to Business-Type Activities			(128,033)
Transfers - internal activity			\$ 259,958

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.

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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>
2009	\$1,320	\$1,320
2010	\$1,200	\$1,200
2011	\$1,320	\$1,320

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.

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. 63rd 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>Employee Contribution</u>	<u>Employer Contribution</u>
2009	\$11,814	\$19,198
2010	\$15,210	\$24,716
2011	\$15,204	\$24,706

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.

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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>
2009	\$17,155	\$28,089
2010	\$18,806	\$30,120
2011	\$17,471	\$27,961

8. Commitments and Contingencies

Long-term Debt Commitments:

At June 30, 2011, the City and PPWA reported the following as long-term debt commitments:

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.	\$ 192,711
\$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.	198,750
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 2.519% plus a .5% administrative fee, note is secured by a pledge of net utility revenues and a mortgage on the facilities.	1,042,002
\$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	52,084
\$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	<u>153,447</u>
Balance Outstanding at June 30, 2011	<u>\$ 1,638,994</u>

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Capital Lease Agreements:

\$113,774 capital lease agreement for purchase of trash truck, payable in annual installments of \$41,239, interest rate 4.25%, final payment due December 17, 2011	\$ 39,527
\$115,500 capital lease agreement for purchase of bucket truck, payable in annual installments of \$32,009, interest rate 4.25%, final payment due September 23, 2013	<u>59,284</u>
Balance Outstanding at June 30, 2011	<u>\$ 98,811</u>

Debt Service Requirements to Maturity

Year Ended June 30,	Business-type			
	<u>Capital Lease Agreements</u>		<u>Notes Payable</u>	
	Principal	Interest	Principal	Interest
2012	\$ 68,572	\$ 5,461	\$ 141,550	\$ 41,818
2013	30,239	2,563	146,109	37,588
2014	-	-	150,736	33,587
2015	-	-	155,546	29,118
2016	-	-	160,472	24,614
2017-2021	-	-	696,600	67,904
2022-2026	-	-	187,981	3,154
	<u>\$ 98,811</u>	<u>\$ 8,024</u>	<u>\$ 1,638,994</u>	<u>\$ 237,783</u>

Pledge of Future Revenues

Utility Net Revenues Pledge – The City has also 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 these bonds and notes is \$1,203,351. The note is payable from the above-mentioned utility net revenues. The debt service payments on the note this year were \$109,150 which was 36% of pledged net utility revenues of \$306,321.

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, 2011, is summarized as follows:

- City and PPWA– accrued compensated absences \$70,066

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

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 2011, the City's involvement in federal and state award programs was 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.

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 171,350	\$ 171,350	\$ 170,858	\$ (492)
Resources (Inflows):				
Taxes	820,000	820,000	805,811	(14,189)
Intergovernmental	62,000	65,000	80,946	15,946
Charges for services	30,200	30,200	23,765	(6,435)
Fines and Forfeitures	70,000	61,000	59,459	(1,541)
Licenses and Permits	4,000	4,000	2,937	(1,063)
Investment Income	2,000	1,000	1,280	280
Miscellaneous	121,100	121,100	56,673	(64,427)
Transfers In	340,000	340,000	300,000	(40,000)
Total Resources (Inflows)	<u>1,449,300</u>	<u>1,442,300</u>	<u>1,330,871</u>	<u>(111,429)</u>
Amounts available for appropriation	<u>\$ 1,620,650</u>	<u>\$ 1,613,650</u>	<u>\$ 1,501,729</u>	<u>\$ (111,921)</u>
Charges to Appropriations (Outflows):				
General government	261,947	259,947	211,381	48,566
Public safety	906,213	895,213	866,836	28,377
Highways and streets	47,138	35,138	24,939	10,199
Culture and recreation	225,904	253,904	252,287	1,617
Airport	14,950	14,950	11,035	3,915
Total Charges to Appropriations	<u>1,456,152</u>	<u>1,459,152</u>	<u>1,366,478</u>	<u>92,674</u>
Ending Budgetary Fund Balance	<u>\$ 164,498</u>	<u>\$ 154,498</u>	<u>\$ 135,251</u>	<u>\$ (19,247)</u>
Reconciliation to Statement of Revenues, Expenditures, and Change in Fund Balance:				
Library Fund Balance			<u>10,373</u>	
Total General Fund Fund Balance			<u>\$ 145,624</u>	

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

	EMERGENCY RESERVE FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$ 425,000	\$ 425,000	\$ 424,098	\$ (902)
Resources (Inflows):				
Taxes	62,500	62,500	60,827	(1,673)
Investment Income	3,000	3,000	4,577	1,577
Total Resources (Inflows)	<u>65,500</u>	<u>65,500</u>	<u>65,404</u>	<u>(96)</u>
Amounts available for appropriation	<u>\$ 490,500</u>	<u>\$ 490,500</u>	<u>\$ 489,502</u>	<u>\$ (998)</u>
Charges to Appropriations (Outflows):				
Public Safety	-	-	-	-
Total Charges to Appropriations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending Budgetary Fund Balance	<u>\$ 490,500</u>	<u>\$ 490,500</u>	<u>\$ 489,502</u>	<u>\$ (998)</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 appropriation within a fund require City Manager's approval, while supplemental appropriations require City Council approval.

SUPPLEMENTARY INFORMATION

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

NonMajor Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2011

	Special Revenue Funds		Capital Project Funds			Total Governmental Funds
	Cemetery Care Fund	E911 Fund	Street Improvement Sales Tax Fund	Fire Fund	Housing Grant	
ASSETS						
Cash and cash equivalents	\$ 11,859	\$ 2,984	\$ 45,185	\$ 48,071	\$ -	\$ 108,099
Due from other funds	-	-	3,476	-	-	3,476
Total assets	<u>11,859</u>	<u>2,984</u>	<u>48,661</u>	<u>48,071</u>	<u>-</u>	<u>111,575</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	181	-	-	-	-	181
Total liabilities	<u>181</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>181</u>
Fund balances:						
Restricted for:						
Fire	-	-	-	48,071	-	48,071
E911	-	2,984	-	-	-	2,984
Cemetery	9,376	-	-	-	-	9,376
Streets	-	-	26,614	-	-	26,614
Assigned to:						
Cemetery	2,302	-	-	-	-	2,302
Streets	-	-	22,047	-	-	22,047
Total fund balances (deficits)	<u>11,678</u>	<u>2,984</u>	<u>48,661</u>	<u>48,071</u>	<u>-</u>	<u>111,394</u>
Total liabilities and fund balances	<u>\$ 11,859</u>	<u>\$ 2,984</u>	<u>\$ 48,661</u>	<u>\$ 48,071</u>	<u>\$ -</u>	<u>\$ 111,575</u>

NonMajor Governmental Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2011

	Special Revenue Funds		Capital Project Funds			Total-Other Governmental Funds
	Cemetery Care Fund	E911 Fund	Street Improvement Sales Tax Fund	Fire Fund	Housing Grant	
REVENUES						
Taxes	\$ -	\$ 1,800	\$ -	\$ 60,930	\$ -	\$ 62,730
Intergovernmental	-	-	56,988	-	220,000	276,988
Charges for services	4,559	-	-	-	-	4,559
Investment income	22	-	97	-	-	119
Miscellaneous	50	-	22,047	-	-	22,097
Total revenues	<u>4,631</u>	<u>1,800</u>	<u>79,132</u>	<u>60,930</u>	<u>220,000</u>	<u>366,493</u>
EXPENDITURES						
Current:						
General government	-	-	-	-	220,000	220,000
Public Safety	-	5,400	-	-	-	5,400
Highways and streets	-	-	11,458	-	-	11,458
Capital Outlay	-	-	22,800	53,067	-	75,867
Cemetery	4,171	-	-	-	-	4,171
Debt Service:						
Principal	-	-	-	38,159	-	38,159
Interest and other charges	-	-	-	1,690	-	1,690
Total Expenditures	<u>4,171</u>	<u>5,400</u>	<u>34,258</u>	<u>92,916</u>	<u>220,000</u>	<u>356,745</u>
Excess (deficiency) of revenues over expenditures	<u>460</u>	<u>(3,600)</u>	<u>44,874</u>	<u>(31,986)</u>	<u>-</u>	<u>9,748</u>
Net change in fund balances	460	(3,600)	44,874	(31,986)	-	9,748
Fund balances - beginning	11,218	6,584	3,787	80,057	-	101,646
Fund balances - ending	<u>\$ 11,678</u>	<u>\$ 2,984</u>	<u>\$ 48,661</u>	<u>\$ 48,071</u>	<u>\$ -</u>	<u>\$ 111,394</u>

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Schedule of Expenditures of State Awards (Accrual Basis) – Year Ended June 30, 2011

<u>Federal/State Grantor/Pass through agency Grantor/Program Title</u>	<u>Agency or Pass Thru Number</u>	<u>Program or Award Amount</u>	<u>State Expenditures</u>
STATE ASSISTANCE:			
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>			
State Aid		\$ 6,357	\$ 6,357
Total Oklahoma Department of Libraries		<u>6,357</u>	<u>6,357</u>
<u>COEDD:</u>			
Community Expansion of Nutritional Assistance (CENA) REAP Grant	CENA 10-11 Fund 010 2010-2011 REAP Fund 12	3,000 <u>37,000</u>	3,000 <u>37,000</u>
Total U.S. COEDD		<u>40,000</u>	<u>40,000</u>
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>			
Rural Fire Grant		<u>4,398</u>	<u>4,398</u>
Total Oklahoma Department of Agriculture		<u>4,398</u>	<u>4,398</u>
TOTAL STATE ASSISTANCE		<u>\$ 50,755</u>	<u>\$ 50,755</u>

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Debt Service Coverage Schedule

	2001 SRF OWRB Promissory Note
Gross Revenue Available for Debt Service:	
Operating revenues of leased systems	555,424
Interest income	1,531
Total Gross Revenues Available	556,955
System Operating Expenses	250,634
Net Revenues Available for Debt Service	\$306,321
Debt Service Requirements:	
Maximum annual debt service on all Obligations Payable from Revenues of the System	\$111,888
Coverage	274%
Coverage Requirement	125%
Reserve Account Requirements:	
Required Balance:	OWRB Series 2001 SRF Note
Revenue Bond Reserve Requirement (1)	\$111,888
Balance in Reserve Account, June 30, 2011	379,481
Excess of Account Balance over Required Balance	\$267,593

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

SINGLE AUDIT AND INTERNAL CONTROL AND COMPLIANCE



**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 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, 2011, which collectively comprise the City's basic financial statements, and have issued our report thereon dated February 20, 2012. Our report includes a paragraph which notes 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 a paragraph which disclaims an opinion on management's discussion and analysis, budgetary comparison information—modified cash basis, and other required supplemental information. In addition, our report includes an explanatory paragraph for the implementation of GASB 54. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting (Item 11-1). 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.

**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**

Compliance and Other Matters

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

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

This report is intended solely for the information and use of the management of the City of Prague, the State of Oklahoma, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Finley + Cook, PLLC

Shawnee, Oklahoma
February 20, 2012



**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the City of Prague, Oklahoma's (the "City") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2011. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City's compliance with those requirements.

In our opinion, the City complied in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

(Continued)

**REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in an entity's internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of the City Council, management of the City, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Finley & Cook, PLLC

Shawnee, Oklahoma
February 20, 2012

**CITY OF PRAGUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2011**

Schedule of Expenditures of Federal Awards (Accrual Basis) – Year Ended June 30, 2011

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Federal/State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Agency or Pass Thru Number	Program or Award Amount	Federal Expenditures
FEDERAL ASSISTANCE:				
<u>U.S. DEPARTMENT OF HOMELAND SECURITY:</u>				
Passed through Oklahoma Dept. of Civil Emergency Management:				
Disaster Assistance	97.036	PA-06-OK-1883-PW-00425	\$ 7,625	\$ 7,625
FEMA-Emergency Management Preparedness Grant	97.042	EMPG 11	10,000	5,000
FEMA-Emergency Management Preparedness Grant	97.042	EMPG 10	10,000	7,500
FEMA-Hazard Mitigation Grant	97.039	HM 1712 Project	26,250	1,713
Total U.S. Department of the Homeland Security			<u>53,875</u>	<u>21,838</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
Passed through Oklahoma Department of Commerce:				
Community Development Block Grant	14.228	14170 CDBG 10	150,000	149,360
HOME Investment Partnership Program	14.239	1267 HOME 09	260,000	220,000
Total U.S. Department of Housing and Urban Development			<u>410,000</u>	<u>369,360</u>
<u>U.S. DEPARTMENT OF ENERGY:</u>				
Passed through Oklahoma Department of Commerce:				
Stimulus Energy Efficiency Community Block Grant Grant (ARRA)	81.128	13978 SEECBG 09	135,000	125,000
<u>U.S. DEPARTMENT OF JUSTICE:</u>				
Passed through Oklahoma District Attorneys Council:				
09 Recovery Act Justice Assistance Grant	16.803	2009-SU-B9-003	9,240	9,105
<u>U.S. DEPARTMENT OF TRANSPORTATION:</u>				
Federal Aviation Grant	20.106	3-40-0081-002-2007	367,650	-
Federal Aviation Grant	20.106	3-40-0081-003-2008	283,552	-
Federal Aviation Grant	20.106	3-40-0081-004-2010	285,000	247,679
Total U.S. Department of Transportation			<u>936,202</u>	<u>247,679</u>
TOTAL FEDERAL ASSISTANCE			\$ 1,544,317	\$ 772,982

Notes to Schedule of Expenditures of Federal Awards

Note A - Significant Accounting Policies - The accompanying schedule of expenditures of federal awards is prepared on the basis of accounting consistent with the definition of federal awards expended in paragraph 205 of OMB Circular A-133.

CITY OF PRAGUE, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2011

SECTION I—SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

**Unqualified opinion on
the modified cash basis
financial statements**

Internal control over financial reporting:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered
to be material weakness(es)?

Yes None Reported

Noncompliance material to financial statements noted?

Yes None Noted

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Yes None Noted

Significant deficiency(ies) identified that are not considered
to be material weakness(es)?

Yes None Reported

Type of auditors' report issued on compliance for the major programs:

Unqualified

Any audit findings disclosed that are required to be reported in
accordance with section 510(a) of Circular A-133?

Yes No

Identification of major programs:

<u>Federal CFDA#</u>	<u>Name of Federal Program</u>
81.128	Department of Energy Energy Efficiency and Conservation (ARRA)
20.106	Department of Transportation Airport Improvement Program
14.239	Department of Housing and Urban Development HOME Investment Partnerships Program

Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**

Auditee qualified as low-risk auditee?

Yes No

CITY OF PRAGUE, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2011

SECTION II—FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCIES

11-1. 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: City management is currently researching the possibility of better segregating these duties.

CITY OF PRAGUE, OKLAHOMA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS, CONTINUED

Year Ended June 30, 2011

SECTION III—FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted.

CITY OF PRAGUE, OKLAHOMA

FOLLOW-UP ON PRIOR YEAR FINDINGS

Year Ended June 30, 2011

SIGNIFICANT DEFICIENCIES—RELATED TO FINANCIAL STATEMENTS

10-1. 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: City management is currently researching the possibility of better segregating these duties.

2011 Follow-up: Finding repeated in 2011.

