



**THE TOWN OF PRUE,
OKLAHOMA
ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT
AUDITOR'S REPORTS**

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**TOWN OF PRUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
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Board of Trustees

Kenneth Goodman	Mayor
Bill Lay	Trustee
Tammy Johnson	Trustee
Debbie Haughey	Trustee
Pete Burris	Trustee

Town Clerk

Brenda Owns

Deputy Town Clerk

Ada Yarbrough

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INDEPENDENT AUDITOR'S REPORT

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TOWN OF PRUE, OKLAHOMA
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Anne Marie Elfrink, MS, CPA

Member AICPA, OSCP, GFOA

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Tulsa, Oklahoma 74137

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members of the Board of Trustees
Town of Prue, State Oklahoma

I have audited the accompanying financial statements-modified cash basis of the Town of Prue, Oklahoma, as of and for the year ended June 30, 2012, and the related notes to the financial statements-modified cash basis, 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 1B; 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 error or fraud.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my 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, and the general fund of the Town of Prue, Oklahoma, as of June 30, 2012, and the respective changes in financial position—

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modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1B.

Basis of Accounting

I draw attention to Note 1B 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 of America. My opinion is not modified with respect to that matter.

Disclaimer of Opinion on Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Prue, Oklahoma's basic financial statements. The budgetary comparison information on page 35, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated June 25, 2014, on my consideration of the Town of Prue, Oklahoma's internal control over financial reporting and on my 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 my 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 Town of Prue, Oklahoma's internal control over financial reporting and compliance.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
June 25, 2014

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BASIC FINANCIAL STATEMENTS – STATEMENT OF NET POSITION AND ACTIVITIES

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Statement of Net Position (Modified Cash Basis) – June 30, 2012

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 128,877	\$ 51,156	\$ 180,033
Noncurrent assets:			
Restricted cash and cash equivalents	-	10,289	10,289
Capital assets, net of depreciation	133,678	493,339	627,017
Total assets	<u>262,555</u>	<u>554,784</u>	<u>817,339</u>
Liabilities:			
Meter deposit liability	-	11,944	11,944
Total liabilities	<u>-</u>	<u>11,944</u>	<u>11,944</u>
Net Position:			
Net investment in capital assets	133,678	493,339	627,017
Restricted – water improvements	-	22,621	22,621
Unrestricted	128,877	26,880	155,757
Total net position	<u>\$ 262,555</u>	<u>\$ 542,840</u>	<u>\$ 805,395</u>

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis) – Year Ended June 30, 2012

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>		
		<u>Charges for Services</u>	<u>Capital Grants</u>	<u>Operating Grants</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Primary government:							
Governmental activities:							
General government	\$ 18,271	\$ -	\$ -	\$ -	\$ (18,271)	\$ -	\$ (18,271)
Fire	13,453	11,506	-	4,413	2,466	-	2,466
Streets and alleys	7,085	-	-	-	(7,085)	-	(7,085)
Cemetery	2,019	-	-	-	(2,019)	-	(2,019)
Contract services - CIP	13,625	-	-	13,625	-	-	-
Total governmental activities	54,453	11,506	-	18,038	(24,909)	-	(24,909)
Business-type activities							
Water	86,610	72,032	-	-	-	(14,578)	(14,578)
Sanitation	41,472	46,548	-	-	-	5,076	5,076
	128,082	118,580	-	-	-	(9,502)	(9,502)
Total primary government	\$ 182,535	\$ 130,086	\$ -	\$ 18,038	(24,909)	(9,502)	(34,411)
General revenues:							
Taxes:							
Sales tax					13,174	4,810	17,984
Franchise and public service taxes					8,577	-	8,577
Intergovernmental revenue					14,034	-	14,034
Investment income					400	169	569
Donations					2,328	-	2,328
Gain (loss) on sale of asset					(338)	108	(230)
Miscellaneous					12	-	12
Total general revenues					38,187	5,087	43,274
Change in net position					13,278	(4,415)	8,863
Net position - beginning					249,277	547,255	796,532
Net position - ending					\$ 262,555	\$ 542,840	\$ 805,395

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012

	General Fund
	<hr/>
Assets:	
Cash and cash equivalents	\$ 128,877
Total Assets	<hr/> <hr/> 128,877
Fund Balance:	
Unrestricted:	
Assigned:	
Fire	21,934
Streets and alleys	19,674
Cemetery	2,076
Unassigned	85,193
Total Fund Balance	<hr/> \$ 128,877 <hr/>

See accompanying notes to the basic financial statements.

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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2012

	General Fund
Revenues:	
Taxes	\$ 21,751
Intergovernmental	14,034
Fire subscriptions and runs	11,506
Grant revenue	18,038
Donations	2,328
Investment income	400
Miscellaneous	12
Total Revenues	68,069
 Expenditures:	
General government	14,787
Fire	7,260
Streets and alleys	3,112
Cemetery	2,019
Contract services - CIP	13,625
Capital outlay:	
General government	2,742
Total expenditures	43,545
Net change in fund balance	24,524
Fund balance - beginning	104,353
Fund balance - ending	\$ 128,877

See accompanying notes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Position Reconciliation:

Fund balances of governmental funds	\$ 128,877
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities of \$338,089, net of accumulated depreciation of \$204,411 are not financial resources and, therefore, are not reported in the funds.	133,678
Net position of governmental activities	<u>\$ 262,555</u>

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net changes in fund balances - total governmental funds	\$ 24,524
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:	
Cash purchases of capital assets	2,742
Disposition of capital asset for an amount less than book value	(387)
Depreciation expense	<u>(13,601)</u>
	<u>(11,246)</u>
Change in net position of governmental activities	<u>\$ 13,278</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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Proprietary Funds Statement of Net Position (Modified Cash Basis) – June 30, 2012

	<u>New Prue Public Works Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 51,156
Noncurrent assets:	
Restricted cash and cash equivalents	10,289
Capital assets, net of accumulated depreciation	493,339
Total noncurrent assets	<u>503,628</u>
Total assets	<u>554,784</u>
LIABILITIES	
Noncurrent Liabilities:	
Meter deposit liability payable from restricted assets	11,944
Total Noncurrent Liabilities	<u>11,944</u>
NET POSITION	
Net investment in capital assets	493,339
Restricted – water improvements	22,621
Unrestricted	26,880
Total net position	<u>\$ 542,840</u>

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis)
– Year Ended June 30, 2012

	New Prue Public Works Authority
Operating revenues:	
Charges for sales and services:	
Water	\$ 72,032
Sanitation	46,548
Total operating revenues	118,580
Operating expenses:	
Costs of sales and services:	
Water	33,638
Sanitation	41,472
Personal services	35,561
Depreciation	17,411
Total operating expenses	128,082
Operating income	(9,502)
Non-operating revenue (expense):	
Gain on sale of assets	108
Investment income	169
Sales tax committed to water	4,810
Total non-operating expense	5,087
Change in net position	(4,415)
Net position - beginning	547,255
Net position - ending	\$ 542,840

See accompanying notes to the basic financial statements.

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Proprietary Funds Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012

	New Prue Public Works Authority
Cash flows from operating activities:	
Receipts from customers	\$ 118,580
Payments to suppliers	(75,110)
Payments to employees (including benefits)	(35,561)
Net cash provided by (used in) operating activities	7,909
Cash flows from investing activities	
Investment income	169
Net cash provided by (used in) investing activities	169
Cash flows from capital and related financial activities:	
Purchase of capital assets	(3,000)
Sales tax receipts committed to water activity	4,810
Cash proceeds from sale of assets	200
Net cash provided by (used in) capital and related financing activities	2,010
Net increase (decrease) in cash and cash equivalents	10,088
Cash and equivalents - beginning of year	51,357
Cash and equivalents - end of year	\$ 61,445
Reconciliation to Statement of Net Assets:	
Operating income	(9,502)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	17,411
Net cash provided by (used in) operating activities	\$ 7,909

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Basic Financial Statements

1. Summary of Significant Accounting Policies

A. Town's Financial Reporting Entity

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

The Town's financial reporting entity includes the following separate legal entities:

- **The Town of Prue** – operates the public safety, streets, and administrative activities of the Town. The Town is governed under the statutory town board of trustees form of government. The governing body is an elected five-member Board of Trustees with the Mayor serving as president of the Board.
- **The Prue Public Works Authority (NPPWA)** – a trust created pursuant to 60 O.S. Section 176 to operate the water, and sanitation services of the Town. The Town of Prue is the beneficiary of NPPWA which is reported as a blended component unit of the Town. The five trustees of the Town of Prue also serve as trustees for the NPPWA.

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Council Statement No. 14, as amended by Statement No. 61, *The financial Reporting Entity*, and includes all component unites for which the Town is financially accountable.

The component unit is a Public Trust pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Board of Trustees to delegate certain functions to the governing body of the Authority. The Authorities generally retain title to assets which are acquired or constructed with Authority debt or other Authority-generated resources. The Town, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

B. Basis of Presentation and Accounting

Implementation of New Accounting Standards:

The Town has implemented the effect of the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

Statement 60 – Service Concession Arrangements (no material effect)

Statement 61 – The Financial Reporting Entity (no material effect)

Statement 62 – Codification of pre-1989 FASB standards and AICPA pronouncements (no material effect)

Statement 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position (adopted early, change in statement titles, totals, and subtotals)

Statement 65 – Items Previously reported as Assets and Liabilities (adopted early, with no material effect)

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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:

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based inter-fund 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 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.

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

- General government: License and permits, rents, and operating grants
- Public safety: Fine revenue, fire runs, rural fire policies, and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes

Governmental Funds:

The Town accounts for all governmental activities through the general fund. The general fund is reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheet. The operating statement presents sources and uses of available spendable financial resources during a given period. This fund financial statement uses fund balance as its measure of available spendable financial resources at the end of the period. The reconciliation of the governmental fund financial statement 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 Town accounts for all proprietary activities through the New Prue Public Water Authority fund. 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.

The general fund is legally required to adopt an annual budget or appropriations. The public trust (NPPWA) is not required to adopt legal annual appropriations. While the trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

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C. Cash, Cash Equivalents, and Investments

Cash and cash equivalents include all demand and savings accounts, certificates of deposit, and any short-term investments with an original maturity of six months or less. Investments consist of long-term certificates of deposits and are reported at cost.

D. Capital Assets and Depreciation

Reported capital assets are limited to those acquired with cash and cash equivalents consistent with the modified cash basis of accounting. The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of \$500 is used to report capital assets.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The estimated useful lives by type of asset are as follows:

- Buildings 25-40 years
- Machinery, furniture and equipment 5-25 years
- Utility property and improvements 40 years
- Infrastructure 15-25 years

E. Long-Term Debt

Reported long-term debt is limited to debt arising from cash transactions consistent with the modified cash basis of accounting. Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for the proprietary fund is the same in the fund statements as it is in the government-wide statements. As of June 30, 2012 the Town and the NPPWA did not have any long term debt outstanding.

F. 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.

G. 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:

- a. Nonspendable* – amounts that cannot be spent because they either are not in spendable form or are legally or contractually required to be maintained intact
- b. Restricted* – amounts constrained for a specific purpose by creditors, grantors, contributors, or laws or regulations of other governments or by law through constitutional provisions or enabling legislation
- c. Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town’s highest level of decision-making authority. The Town’s highest level of decision-making authority is made by ordinance.
- d. Assigned* – includes amounts that are constrained by the Town’s intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by Town Board of Trustees action or management decision when the Town’s Board has delegated the authority. Assignments for transfers and interest income for governmental funds are made through the budgetary process.
- e. Unassigned* – in the general fund, residual amounts not classified in another classification; for all other funds, only residual deficit amounts

It is the Town’s policy to use restricted assets first when they are available for expenditure. When restricted assets are not available, unrestricted assets are used in the following order: committed, assigned, and then unassigned amounts.

The Town has no formal minimum fund balance policies or any formal stabilization arrangements in place.

Net position:

Net position is displayed in three components:

- a. Net investment in capital assets* - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- b. 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.
- c. Unrestricted net position* - All other net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

H. Internal and Inter-fund Balances and Transfers

The Town’s policy is to eliminate inter-fund 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.

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I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

2. Restatement of Beginning Net Position

Management has elected to convert from an accrual basis of accounting to a modified cash basis accounting effective June 30, 2011. In addition, grant receipts and costs related to a water improvement project placed in service in the year ended June 30, 2010 were not reported and capitalized. Consequently, beginning net assets balances have been restated as follows:

	Governmental Activities	Business-type Activities	Total
Restatement of beginning net position:			
Previously reported 6/30/2011	\$ 275,124	\$ 392,872	\$ 667,996
Adjustments to convert from accrual basis to modified cash basis:			
Subtract:			
Receivables	(4,284)	(12,821)	(17,105)
Prepaid items	-	(8,234)	(8,234)
Add:			
Accounts payable	119	10,355	10,474
Other adjustments and corrections:			
Water system additions to fixed assets, net of accumulated depreciation	-	143,401	143,401
Cash account dedicated to water improvements reported incorrectly	(20,708)	20,708	-
Due from/to other fund	(974)	974	-
Restated net position at 6/30/2011	\$ 249,277	\$ 547,255	\$ 796,532
Reconciliation of above calculation to general fund balance:			
Capital assets, net of depreciation - reported 6/30/2011	(144,924)		
Fund balance at 6/30/2011 as restated	\$ 104,353		

3. Stewardship, Compliance, and Accountability

By its nature as a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. The following instances of noncompliance are considered material to the financial statements

Budgetary Noncompliance

For the year ended June 30, 2012, the Town's Board of Trustees did not formally appropriate funds. Consequently, no budgetary schedule is included in this financial report.

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4. Deposits and Investments

For the year ended June 30, 2012, the Town recognized \$569 of investment income. The Town's funds are deposited with The First National Bank of Hominy in demand accounts bearing annual interest at 0.0% to 0.5%. Time deposits bear interest at the annual rate of 0.75% to 1.00%.

At June 30, 2012, the primary government held the following deposits and investments:

<u>Type</u>	<u>Financial Institution</u>	<u>Carrying Value</u>
Demand deposits	First National Bank	\$ 179,297
Time deposits	of Hominy	<u>11,025</u>
Total		<u>\$ 190,322</u>

Reconciliation to the statement of net position:

Cash and cash equivalents	\$ 180,033
Restricted cash and cash equivalents	<u>10,289</u>
Total	<u>\$ 190,322</u>

Custodial Credit Risk - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The Town is governed by the State Public Deposit Act which requires that the Town obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2012 all deposits were covered by FDIC insurance and the Town was not exposed to custodial credit risk as defined above. The First National Bank of Hominy has not pledged collateral to the Town.

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 Town has no investment policy that limits investments based on maturity. The Town discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments, where applicable.

Investment Credit Risk - The Town has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in: (1) full faith and credit, direct obligations of the U. S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. These investment limitations do not apply to the Town's public trusts.

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 Town (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 Town has no investment policy regarding concentration of credit risk. At June 30,

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2012, the Town had no investment interest rate risk, investment credit risk, or concentration of credit risk as defined above.

Restricted Cash and Investments – The amounts reported as restricted assets on the proprietary fund statement of net position are comprised of amounts restricted for utility deposits of the New Prue Public Works Authority.

5. Sales Tax Revenue

Sales tax revenue represents a 3.0 cent local tax on each dollar of sales within the Town, of which 2.0 cents is to be used for general operations of the Town and 1.0 cents is dedicated to water system improvements.

6. Property Tax Levy

The Town 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 Town.

7. Capital Assets and Depreciation

For the year ended June 30, 2012, capital asset balances changed as follows:

	<u>Balance at July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2012</u>
Governmental:				
Capital assets not being depreciated:				
Capital assets being depreciated:				
Building	\$ 107,810	\$ -	\$ -	\$ 107,810
Infrastructure	94,299	-	-	94,299
Equipment	136,149	2,742	2,911	135,980
Total capital assets being depreciated	338,258	2,742	2,911	338,089
Less accumulated depreciation:				
Building	68,083	2,726	-	70,809
Infrastructure	37,729	2,990	-	40,719
Equipment	87,522	7,885	2,524	92,883
Total accumulated depreciation	193,334	13,601	2,524	204,411
	193,334			
Governmental, net capital assets	<u>\$ 144,924</u>	<u>\$ (10,859)</u>	<u>\$ 387</u>	<u>\$ 133,678</u>
Business-type*				
Capital assets being depreciated:				
Water system and equipment	677,783	3,000	7,454	673,329
Total capital assets being depreciated	677,783	3,000	7,454	673,329
Less accumulated depreciation				
Water system and equipment	169,941	17,411	7,362	179,990
Total accumulated depreciation	169,941	17,411	7,362	179,990
Business-type, net capital assets	<u>\$ 507,842</u>	<u>\$ (14,411)</u>	<u>\$ 92</u>	<u>\$ 493,339</u>

* Restated to include water lines added with CDBG grant funds

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Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental activities:		Business-type activities:	
General government	\$ 3,484	Water	\$ 17,411
Public safety	6,144		
Streets and alleys	<u>3,973</u>		
Total depreciation	<u>\$ 13,601</u>	Total depreciation	<u>\$ 17,411</u>

9. Risk Management

The Town 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 except workers' compensation. 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. The deductibles for each line of coverage are as follows:

General liability, including property	\$0 - \$5,000 per occurrence
Automobile liability	\$0

The Town participated in the Oklahoma Municipal Assurance Group's (OMAG) Workmen's Compensation Plan.

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

The Town has entered into an agreement with the Plan to participate in the coverage and services that the Plan offers. The Town has the responsibility to pay fees set by the Plan and to pay those fees from funds appropriated for that purpose according to the established payment schedule. In addition, the Town is responsible for complying with all requirements of the Oklahoma Workers Compensation Act. The Town has a right to the return of any Loss Funds set aside for claims which have not been paid out in benefits.

10. Employee Retirement Plan Participation

The Town of Prue does not provide retirement benefits to its employees, but, as 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 Town 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:

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OFPRS
4545 N. Lincoln Blvd., Suite 265
Oklahoma City, OK 73105-3414

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>
2012	\$480	\$480

11. Commitments, Contingencies, and Subsequent Events

Compensated Absences:

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation and sick leave) earned but unpaid at year-end are not reflected in the basic financial statements. It is the practice of the current Town's management to require that leave is taken in the same fiscal year in which it is earned. Consequently, there were no unused leave balances as of June 30, 2012.

Litigation:

From time to time, the Town and its public trust may be parties to various legal proceedings or have threatened litigation which normally occurs in the course of municipal governmental operations; however the town's legal counsel advises that at report date there were no pending issues. State Constitution and statutes provide for the levy of an ad valorem tax over a three-year period by a sinking fund for the payment of any court assessed judgment rendered against the Town. (This provision is not available to public trusts.) The Town also carries insurance that provides some degree of protection for litigation and legal proceedings.

Federal and State Award Programs:

The Town of Prue participates in various federal or state grant/loan programs from year to year. In 2012, the Town received a grant in the amount of \$13,625 to update its Capital Improvement Plan, passed through the Oklahoma Department of Commerce. The receipt and corresponding expenditure is reported in the general fund. 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. The Town has not been notified of any noncompliance with federal or state award requirements.

Subsequent Events

These financial statements considered subsequent events through June 25, 2014, the date the financial statements were available to be issued.

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL AND COMPLIANCE

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Anne Marie Elfrink, MS, CPA

Member of the AICPA, OSCP, and GFOA

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

To the Honorable Mayor and Members of the Board of Trustees
Town of Prue, Oklahoma

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements-modified cash basis of the governmental activities, the business-type activities, and the general fund of the Town of Prue, Oklahoma, as of and for the year ended June 30, 2012, and the related notes to the financial statements, which collectively comprise Town of Prue, Oklahoma's basic financial statements-modified cash basis and have issued my report thereon dated June 25, 2014. As described in Note 1B, the Town of Prue, Oklahoma has elected to report on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town of Prue, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Prue, Oklahoma's internal control. Accordingly, I do not express an opinion on the effectiveness of Town of Prue, Oklahoma's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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. I consider the deficiencies described in the accompanying schedule of findings to be material weaknesses. [2012-1, 2012-3]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Prue, Oklahoma's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my

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tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*. [2012-02]

Town of Prue, Oklahoma's Response to Findings

The Town of Prue, Oklahoma's response to the findings identified in my audit is described in the accompanying schedule of findings. The Town of Prue, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Anne Marie Elfrink, MS, CPA

Tulsa, Oklahoma
June 25, 2014

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SCHEDULE OF FINDINGS AND RESPONSES

This schedule is presented as an addendum to accompany the *“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”*. Consideration of items listed should be made in conjunction with that report.

2012-01 – Segregation of Duties

CONDITION: The Town uses essentially two positions to perform certain duties that are incompatible with effective internal control. One employee writes checks, is an authorized signer on the checks, records the checks in the accounting system, and reconciles the bank account. One employee reads the water meters, bills the customer, receives the payment and prepares the deposit, enters the payment in the accounting system, and investigates and records adjustments.

CRITERIA: The segregation of duties and responsibilities between individuals for custody of assets, recordkeeping for those assets, and reconciliation of those asset accounts is an important control activity needed to adequately protect the Town’s assets and ensure accurate financial reporting.

CAUSE OF CONDITION: The Town’s limited size and staffing resources have made it difficult for management to provide sufficient staffing to fully segregate incompatible duties in a cost-effective manner.

POTENTIAL EFFECT OF CONDITION: Without sufficient segregation of duties, the risk increases that errors and fraud could occur and not be detected on a timely basis.

RECOMMENDATION: The Town’s management should investigate opportunities to better segregate duties as well as consider implementing additional Board oversight and/or control of daily functions. For instance, the Town could require that one of the signatures on each check be that of a Board member. In addition, an individual should not be both payee and signer on a check. Bank reconciliations should be reviewed either by the other clerk or a member of the Board. The Town should consider moving the function for entering the water meter readings and generating the billing to the Deputy Town Clerk since the Town Clerk reads the meters. In addition, adjustments to a customer’s account after the bills have been generated should be posted through an adjustment function in the software and require approval of a Board member.

RESPONSE: Town management is aware of the risk and will look for opportunities to strengthen internal controls.

2012-02 – Budgetary Compliance

CONDITION: The Town did not appropriate funds for the fiscal year ended June 30, 2012. The Estimate of Needs and related publication of the Town’s budget only included revenue; no expenditures were shown.

CRITERIA: Oklahoma Title 68 article 30 section 3002(B) requires that every municipality adopt a budget, which shall contain estimates of expenditures and revenues, including probable income by source, for the budget year.

CAUSE OF CONDITION: The Town was not aware that the Board was required to officially adopt a budget or that the budget needed to include expenditures.

POTENTIAL EFFECT OF CONDITION: The Town could be in violation of Oklahoma Statutes governing municipal finances.

RECOMMENDATION: The Town’s Board should formally adopt a budget, including both revenues and expenditures, at an official open meeting of the Board of Trustees. Each month, management should provide an accounting of available appropriations to the Board prior to the Board approving purchase orders. The Town’s management should attend training regarding Oklahoma municipal finances.

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RESPONSE: The Town's management will present a proposed budget to the Board of Trustees that includes both revenues and expenditures and provide a monthly accounting to the Board of expenditures to date by budget category and remaining appropriations.

2012-03 – Cash Accounts Omitted from Trial Balance

CONDITION: Three cash accounts and three certificates of deposit were not included in the Town's accounting system and not shown on the trial balance, including the receipt and expenditure activity for these accounts during the year. Consequently, the trial balances provided by the town understated cash balances by \$21,761 in the General Fund and by \$6,888 in the New Prue Public Works Authority Fund. The balances are reported to the Board of Trustees monthly, however.

CRITERIA: Good accounting practice and stewardship over funds require that all assets and activity be included in the entity's official books of record.

CAUSE OF CONDITION: The Town had historically not included certificates of deposit, grant accounts, and a volunteer fire department account in its records.

POTENTIAL EFFECT OF CONDITION: Revenues and expenditures could go unreported. The monitoring efforts of the Board could be less effective. Cash could be understated. Fraudulent activity could be more difficult to detect.

RECOMMENDATION: All bank accounts should be included in the financial system with all activity impacting the accounts properly recorded and reported.

RESPONSE: The Town's management will add the missing accounts to the financial system and assure that all activity is properly recorded and reported.