



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

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

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

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Bill Lay	Trustee
Tammy Johnson	Trustee
Debbie Haughey	Trustee
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Town Clerk

Brenda Owns

Deputy Town Clerk

Ada Yarbrough

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TOWN OF PRUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

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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, 2013, 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, 2013, and the respective changes in financial position—modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1B.

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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 30, 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 30, 2014

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BASIC FINANCIAL STATEMENTS – STATEMENT OF NET POSITION AND ACTIVITIES

TOWN OF PRUE, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2013

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

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 130,390	\$ 58,052	\$ 188,442
Due from NPPWA	7,271	-	7,271
Total current assets	137,661	58,052	195,713
Noncurrent assets:			
Restricted cash and cash equivalents	-	11,282	11,282
Capital assets, net of depreciation	123,965	538,186	662,151
Total noncurrent assets	123,965	549,468	673,433
Total assets	261,626	607,520	869,146
Liabilities:			
Current liabilities:			
Unearned grant revenue	2,000	-	2,000
Due to primary government	-	7,271	7,271
Total current liabilities	2,000	7,271	9,271
Noncurrent liabilities:			
Meter deposit liability	-	11,282	11,282
Total noncurrent liabilities	-	11,282	11,282
Total liabilities	2,000	18,553	20,553
Net Position:			
Net investment in capital assets	123,965	538,186	662,151
Restricted - water improvements	-	24,580	24,580
Unrestricted	135,661	26,201	161,862
Total net position	\$ 259,626	\$ 588,967	\$ 848,593

See accompanying notes to the basic financial statements.

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

<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	\$ 23,564	\$ -	\$ -	\$ -	\$ (23,564)	\$ -	\$ (23,564)
Fire	17,481	8,690	-	4,484	(4,307)	-	(4,307)
Streets and alleys	4,580	-	-	-	(4,580)	-	(4,580)
Cemetery	1,529	-	-	-	(1,529)	-	(1,529)
Total governmental activities	47,154	8,690	-	4,484	(33,980)	-	(33,980)
Business-type activities							
Water	97,008	66,411	-	-	-	(30,597)	(30,597)
Sanitation	58,027	66,536	-	-	-	8,509	8,509
	155,035	132,947	-	-	-	(22,088)	(22,088)
Total primary government	\$202,189	\$ 141,637	\$ -	\$ 4,484	(33,980)	(22,088)	(56,068)
General revenues:							
Taxes:							
Sales tax					12,522	5,061	17,583
Franchise and public service taxes					7,844	-	7,844
Intergovernmental revenue					13,451	62,521	75,972
Investment income					444	206	650
Donations					2,108	-	2,108
Gain (loss) on sale of asset					(1,027)	-	(1,027)
Miscellaneous					387	(4,251)	(3,864)
Transfers - internal activity					(4,678)	4,678	-
Total general revenues					31,051	68,215	99,266
Change in net position					(2,929)	46,127	43,198
Net position - beginning					262,555	542,840	805,395
Net position - ending					\$ 259,626	\$ 588,967	\$ 848,593

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, 2013

	General Fund
Assets	
Cash and cash equivalents	\$ 130,390
Due from NPPWA	7,271
Total Assets	<u>\$ 137,661</u>
 Liabilities and Fund Balances	
Liabilities:	
Unearned grant revenue	\$ 2,000
Total liabilities	<u>2,000</u>
Fund balances:	
Unrestricted:	
Assigned:	
Fire	21,810
Streets and alleys	22,399
Cemetery	1,689
Unassigned	89,763
Total Fund Balances	<u>135,661</u>
Total liabilities and fund balances	<u>\$ 137,661</u>

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, 2013

	General Fund
Revenues:	
Taxes	\$ 20,366
Intergovernmental	13,451
Fire subscriptions and runs	8,690
Grant revenue	4,484
Donations	2,108
Investment income	444
Miscellaneous	787
Total Revenues	50,330
 Expenditures:	
General government	19,891
Fire	11,637
Streets and alleys	609
Cemetery	1,529
Capital outlay:	
Fire	3,702
General government	1,500
Transfer to NPPWA	4,678
Total expenditures	43,546
Net change in fund balance	6,784
Fund balance – beginning	128,877
Fund balance - ending	\$ 135,661

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	\$ 135,661
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities of \$330,291, net of accumulated depreciation of \$206,326 are not financial resources and, therefore, are not reported in the funds.	123,965
Net position of governmental activities	\$ 259,626

Changes in Fund Balances – Changes in Net Position Reconciliation:

Net changes in fund balances - total governmental funds	\$ 6,784
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	5,202
Disposition of capital asset	(1,427)
Depreciation expense	(13,488)
	(9,713)
Change in net position of governmental activities	\$ (2,929)

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

TOWN OF PRUE, OKLAHOMA
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Proprietary Funds Statement of Net Position (Modified Cash Basis) – June 30, 2013

	New Prue Public Works Authority
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 58,052
Noncurrent assets:	
Restricted cash and cash equivalents	11,282
Capital assets, net of accumulated depreciation	538,186
Total noncurrent assets	549,468
Total assets	607,520
LIABILITIES	
Current liabilities:	
Due to Town of Prue	7,271
Total current liabilities	7,271
Noncurrent Liabilities:	
Meter deposit liability payable from restricted assets	11,282
Total Noncurrent Liabilities	11,282
Total liabilities	18,553
NET POSITION	
Net investment in capital assets	538,186
Restricted - water improvements	24,580
Unrestricted	26,201
Total net position	\$ 588,967

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, 2013

	New Prue Public Works Authority
Operating revenues:	
Charges for sales and services:	
Water	\$ 66,411
Sanitation	66,536
Total operating revenues	132,947
Operating expenses:	
Costs of sales and services:	
Water	39,087
Sanitation	58,027
Personal services	40,283
Depreciation	17,638
Total operating expenses	155,035
Operating income	(22,088)
Non-operating revenue (expense):	
Transfer from Town of Prue	4,678
Grant revenue	62,521
Grant contract services	(4,251)
Investment income	206
Sales tax committed to water	5,061
Total non-operating expense	68,215
Change in net position	46,127
Net position - beginning	542,840
Net position - ending	\$ 588,967

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, 2013

	New Prue Public Works Authority
Cash flows from operating activities:	
Receipts from customers	\$ 132,285
Payments to suppliers	(97,114)
Payments to employees (including benefits)	(40,283)
Net cash provided by (used in) operating activities	(5,112)
Cash from noncapital financing activities:	
Transfers from Town of Prue	4,678
Increase in Due to Town of Prue	7,271
Sales tax receipts committed to water improvements	5,061
Proceeds from capital grants	62,521
Payments for grant contract services	(4,251)
Net cash provided by (used in) capital and related financing activities	75,280
Cash flows from capital and related financial activities:	
Purchase of capital assets	(62,485)
Net cash provided by (used in) capital and related financing activities	(62,485)
Cash flows from investing activities	
Investment income	206
Net cash provided by (used in) investing activities	206
Net increase (decrease) in cash and cash equivalents	7,889
Cash and equivalents - beginning of year	61,445
Cash and equivalents - end of year	\$ 69,334
Reconciliation to Statement of Net Assets:	
Operating income	(22,088)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Decrease in water deposits liability	(662)
Depreciation expense	17,638
Net cash provided by (used in) operating activities	\$ (5,112)

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

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

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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.

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
- Fire: Fine revenue, fire runs, rural fire policies, and operating grants
- Streets and highways: Gas excise and commercial vehicle taxes
- Cemetery: Cemetery maintenance and internment

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.

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

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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, 2013 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

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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 Interfund 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.

Interfund receivable and payable balances reported in the fund financial statements at June 30, 2013 were as follows:

<u>Receivable</u> <u>Fund</u>	<u>Payable</u> <u>Fund</u>	<u>Amount</u>	<u>Nature of Interfund Balance</u>
General Fund	NPPWA	\$ 7,043	General sales tax deposited in NPPWA
General Fund	NPPWA	<u>228</u>	Tobacco tax deposited in NPPWA
	Total	<u>\$ 7,271</u>	

Interfund transfers for the year ended June 30, 2013 were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>	<u>Nature of Interfund Transfer</u>
General Fund	NPPWA	\$ 6,114	Match portion for water system grant
NPPWA	General Fund	<u>(1,436)</u>	General administrative grant payment
		<u>\$ 4,678</u>	

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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. 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, 2013, the Town’s Board of Trustees did not formally appropriate funds. Consequently, no budgetary schedule is included in this financial report.

3. Deposits and Investments

For the year ended June 30, 2013, 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, 2013, the primary government held the following deposits and investments:

<u>Type</u>	<u>Financial Institution</u>	<u>Carrying Value</u>
Demand deposits	1st National Bank	\$ 188,650
Time deposits	of Hominy	<u>11,074</u>
Total		<u>\$ 199,724</u>
 Reconciliation to the statement of net position:		
Cash and cash equivalents		\$ 188,442
Restricted cash and cash equivalents		<u>11,282</u>
Total		<u>\$ 199,724</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, 2013 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.

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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, 2013, 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.

4. 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.

5. 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.

6. Capital Assets and Depreciation

For the year ended June 30, 2013, capital asset balances changed as follows:

	<u>Balance at July 1, 2012</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at June 30, 2013</u>
Governmental:				
Capital assets being depreciated:				
Building	\$ 107,810	\$ -	\$ -	\$ 107,810
Infrastructure	94,299	-	-	94,299
Equipment	135,980	5,202	13,000	128,182
Total capital assets being depreciated	<u>338,089</u>	<u>5,202</u>	<u>13,000</u>	<u>330,291</u>
Less accumulated depreciation:				
Building	70,809	2,727	-	73,536
Infrastructure	40,719	2,989	-	43,708
Equipment	92,883	7,772	11,573	89,082
Total accumulated depreciation	<u>204,411</u>	<u>13,488</u>	<u>11,573</u>	<u>206,326</u>
Governmental, net capital assets	<u>\$ 133,678</u>	<u>\$ (8,286)</u>	<u>\$ 1,427</u>	<u>\$ 123,965</u>

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Business-type

Capital assets being depreciated:				
Water system and equipment	673,329	62,485	-	735,814
Total capital assets being depreciated	<u>673,329</u>	<u>62,485</u>	-	<u>735,814</u>
Less accumulated depreciation				
Water system and equipment	179,990	17,638	-	197,628
Total accumulated depreciation	<u>179,990</u>	<u>17,638</u>	-	<u>197,628</u>
Business-type, net capital assets	<u>\$ 493,339</u>	<u>\$ 44,847</u>	<u>\$ -</u>	<u>\$ 538,186</u>

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	\$ 3,673	Water	\$ 17,638
Fire	5,844		
Streets and alleys	<u>3,971</u>		
Total depreciation	<u>\$ 13,488</u>	Total depreciation	<u>\$ 17,638</u>

7. 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.

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8. 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:

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>
2013	\$540	\$540
2012	\$480	\$480

9. 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, 2013.

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 2013, the Town received a grant in the amount of \$13,625 to update its Capital Improvement Plan, passed through the

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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 30, 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, 2013, 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 30, 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. [2013-1, 2013-3]

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*. [2013-02]

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 30, 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, 2013. 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.

2013-03 – Violations of State Statutes and Town's Ordinance Regarding Purchasing Practices

CONDITION: Between October, 2013 and April, 2013, 7 monthly payments were made to a supplier in the amount of \$439 each to purchase one toner drum each month at a cost of \$439 each. The same toner drum is available from Office Depot for approximately \$65 at report date and is advertised to yield up to 6,000 pages. Support for the payments indicate that two of the checks had a copy of an invoice attached that was also provided for support for another payment. Support for one of the checks could not be located. The Deputy Town Clerk signed a fax purchasing two of the drums and reports the company continued to ship more drums, aggressively sought payment for the unordered merchandise, and threatened to litigate for breach of contract. The purchase orders were signed by the Deputy Town Clerk as purchasing officer. One of the shipping documents from the supplier indicated 4 units were shipped and billed at one time with an order date of 12/20/2012. However, the purchase orders were for one unit per month in January, February, March, and April, which would conceal the total amount of the purchase.

CRITERIA: Oklahoma Title 62 Section 310.1 directs that the purchase order shall be submitted prior to the time the commitment is made. The Town's ordinance 02-2004 directs that purchasing authority is retained by the Town's Board of Trustees except the Mayor is granted authority to make purchases up to \$1,500. Good purchasing policy would require that quotes be obtained, particularly as it applies to technical or unfamiliar purchases.

CAUSE OF CONDITION: The Town does not appear to be following or enforcing its ordinance related to purchasing. A review of available information regarding scams indicates the Town may have been the victim of a fraudulent marketing scheme as there are many similar complaints filed with various consumer protection websites regarding this specific vendor.

POTENTIAL EFFECT OF CONDITION: Errors, abuse, or fraud could take place and not be detected timely.

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RECOMMENDATION: Officers signing purchase orders or checks should examine the support for the payment to assure that the payment is within the guidelines of State statutes and local ordinances. The Town should consider a review of its purchasing policies and practices to assure that they are within the framework of the applicable regulations, statutes, and ordinances, as well as good business practice. An attorney should be consulted as to possible recourse or the need for additional investigation regarding the incident described above.

RESPONSE: The Town's management will review purchasing policies and practices to assure that policies are in line with legal requirements and best business practices and that actual practice adheres to the policies.