

**City of Hobart, OK**

*Audit Report*

For Year Ending June 30, 2012

Scott Northrip, CPA

P.O. Box 642

Hobart, OK 73651

(580) 726-5681

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**CITY OF HOBART, OKLAHOMA**  
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# Scott Northrip

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*Hobart, Oklahoma 73651*

## INDEPENDENT AUDITOR'S REPORT

To the City Council  
City of Hobart, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Hobart, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprises the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Hobart, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note A2, City of Hobart, Oklahoma, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Hobart, Oklahoma, as of and for the year ended June 30, 2012, and the cash flows of its business-type activities for the year ended on the basis of accounting described in Note A2, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2013, on our consideration of the City of Hobart, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 7, 11, 17, and 21 through 34 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it. The accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hobart, Oklahoma's basic financial statements. The introductory section, combining and individual fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Scott Northrip, CPA*

Scott Northrip, CPA

April 30, 2013

**CITY OF HOBART, OKLAHOMA**  
**Management's Discussions and Analysis**  
**For the Year Ended June 30, 2012**

**Executive Summary**

The management of the City of Hobart is pleased to provide this annual financial report to its citizens, taxpayers, and other report users to demonstrate its accountability and communicate the City's financial condition and activities as of and for the year ended June 30, 2011. Management of the City is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The City reports its financial statement and schedules on a modified cash basis which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

**The Past Year**

For the year ended June 30, 2012, the following financial highlights are considered noteworthy by the management:

- The City's General Fund ended the year with an unreserved fund balance of \$743,541 which represents 51.38% of annual General Fund revenues.
- For the fiscal year ended June 30, 2012, the City's General Fund actual revenue was .92% above final estimates while appropriations were 15.07% above final appropriations.
- Sales tax revenue collections amounted to \$1,315,023 which is a increase from 2011 by \$82,234 or a 6.7% increase from the prior year. This translates into a increase in taxable sales of \$2,055,850.
- The City's business-type activities (PWA) increased its long-term debt by 26.3% or \$369,917 during the fiscal year 2012.
- The City invested \$3,081,662 in fixed assets during the fiscal year 2012 with \$660,225 received through grants. The City had construction in progress from previous year of \$1,592,245.

**The Upcoming Year**

- For the upcoming fiscal year ending June 30, 2013, the City's adopted budget is fairly consistent with the 2012 budget. The General Fund budget required the use of fund balance to balance the budget.

**Using This Annual Report**

This annual report is presented in a format that substantially meets the presentation requirements of the Government Accounting Standards Board (GASB) in accordance with generally accepted accounting principles as applicable to the modified cash basis of accounting. It represents a presentation that communicates the City's financial condition and changes therein at two distinct levels:

- **The City as a Whole** ( a government-wide presentation)
- **The City's Funds** ( a presentation of the City's governmental funds)

**CITY OF HOBART, OKLAHOMA**  
**Management's Discussions and Analysis – (Continued)**  
**For the Year Ended June 30, 2012**

**Using This Annual Report - Continued**

The City's various government-wide and fund financial statements are presented throughout this annual report and are accompanied by:

- **Management's Discussion and Analysis** – that provides useful analysis that facilitates a better understanding of the City's financial condition as well as highlights important information.
- **Footnotes** – that elaborate on the City's accounting principles used in the preparation of the financial statements and further explains financial statement elements and data.
- **Supplemental Schedules** – that provide additional information about specified elements of the financial statements, such as budgetary comparisons, capital assets, investments, and long-term debt.

**About the City**

The City of Hobart is an incorporated municipality with a population of approximately 3,300 people located in southwest Oklahoma and the county seat of Kiowa County. The City has adopted the Council/Manager form of government and operates under a home-rule charter that provides for three branches of government: Legislative, Executive, and Judicial.

The City provides typical municipal services such as public safety, street and alley maintenance, park and recreation, community development, and utility services including water, wastewater, and sanitation.

This annual report includes all activities for which the City Board is fiscally responsible. These activities, defined as the City's financial reporting entity, are operated within separate legal entities that make up the primary government and another separate legal entity that is included as a component unit. The entities are:

- **The City of Hobart (General Funds)** – that operate the public safety, streets, health and welfare, culture and recreation, and administrative activities.
- **The Hobart Public Works Authority** – that operates the water, wastewater, and sanitation services of the City.
- **Hobart Economic Development Authority (component unit)** – that provides economic development within the City.
- **Hobart Recreation Authority (component unit)** – that provides recreation through a golf course and banquet facilities.

**Contacting City Management**

This report is designed to provide the City's citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the finances it receives. If you have any questions about this report or need additional information, please contact the City as follows: Office of City Clerk, 113 East 3<sup>rd</sup> Street, P.O. Box 231, Hobart, OK 73651-0231 or call (580)726-3100.

**CITY OF HOBART, OKLAHOMA**  
**Management's Discussions and Analysis –Government-Wide**  
**For the Year Ended June 30, 2012**

The Statement of Net Assets and the Statement of Activities and Fund Balance report information about the City as a whole and about its activities as of June 30 and for the year ending. The statements are prepared using the modified cash basis of accounting that is not in accordance with generally accepted accounting principles in the United States. The statements don't reflect activities that have not been appropriated and finances that have not been received as of the end of the fiscal year. The statements reflect the capital assets net of depreciation and depreciation expense rather than the cash method for the general fund.

**Level of Unrestricted Fund Balance**

As a result of the activities of fiscal year 2012, the unrestricted fund balance of the government-wide funds has increased by \$152,247. The percentage of unrestricted balance to revenues increased by 5% points to 20%. The amount of unrestricted fund balance in the governmental funds decreased by \$52,784, and proprietary unrestricted fund balance increased by \$205,031.

**Net Changes in Net Assets**

The Statement of Activities reflects a net increase in Net Assets of \$458,607 for the 2012 year. The increase is due to the capital grant revenues of \$685,076 for purchases of fixed assets and only depreciation being reported on the government wide statement of activities. Total expenditures decreased by \$198,185 and revenues decreased \$864,501 mainly due to the grant revenues which decreased by \$1,056,896.

**Direct Control Revenues**

The City of Hobart has a relatively high dependence on tax revenues like most small cities in Oklahoma. The City's percentage of tax revenues to total revenues was 28.3%. This does indicate a moderate level of exposure to financial difficulties due to the significant reliance on taxes. Fortunately the current year saw an increase in the amount of taxes collected and the receipt of royalties during the year have decreased the level of exposure to financial difficulties. Even though the City received \$224,706 from royalties, that is 56% of the amount received in 2011. The trend at the end of the year and several months following the year indicates a stabilization in royalty revenues and sales tax revenues.

**Net Changes in Cash and Investments**

The City had a increase during the fiscal year 2012 in cash and investments in the amount of \$476,816 or a increase of 33.0%. The City had decreases in its investments of \$212,406 from the previous year.

# CITY OF HOBART, OKLAHOMA

Total Government Statement of Net Assets-Modified Cash Method  
As of June 30, 2012

	Governmental Funds	Proprietary Funds	TOTAL	Component Units
<b>ASSETS:</b>				
Cash & Cash Equivalents	\$ 634,347	\$ 483,427	\$ 1,117,774	\$ 80,496
Investments	722,360	-	722,360	-
Restricted Cash & Equivalents	-	107,002	107,002	-
Deposits with insurance pool	4,531	-	4,531	-
Due from others	-	-	-	81,455
Capital Assets:				
Construction in Progress	-	-	-	-
Capital Assets, net of depreciation	5,030,051	5,686,904	10,716,955	1,119,892
<b>TOTAL ASSETS</b>	<b>\$ 6,391,289</b>	<b>\$ 6,277,333</b>	<b>\$ 12,668,622</b>	<b>\$ 1,281,843</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Draft Payables	\$ -	\$ 10,469	\$ 10,469	\$ -
Due to Others	-	64,673	64,673	31,815
Long-term Liabilities and Leases:				
Due within one year	-	246,659	246,659	9,392
Due in more than one year	-	1,531,863	1,531,863	228,039
<b>TOTAL LIABILITIES</b>	<b>\$ -</b>	<b>\$ 1,853,664</b>	<b>\$ 1,853,664</b>	<b>\$ 269,246</b>
Net Assets:				
Restricted Fund Balance for:				
Insurance Pool	\$ 4,531	\$ -	\$ 4,531	\$ -
Debt Service	-	107,002	107,002	-
Improvements & Economic Development	254,907	648,104	903,011	113,271
Other Government Funds	146,155	-	146,155	-
Invested in capital assets, net of debt	5,030,051	3,474,274	8,504,325	886,916
Unrestricted	955,645	194,289	1,149,934	12,410
<b>TOTAL NET ASSETS</b>	<b>\$ 6,391,289</b>	<b>\$ 4,423,669</b>	<b>\$ 10,814,958</b>	<b>\$ 1,012,597</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 6,391,289</b>	<b>\$ 6,277,333</b>	<b>\$ 12,668,622</b>	<b>\$ 1,281,843</b>

See accompanying notes to the financial statements.

# CITY OF HOBART, OKLAHOMA

## Total Governmental Statement of Activities-Modified Cash Method For the Year Ended June 30, 2012

	Governmental Funds	Proprietary Funds	TOTAL	Component Unit
<b>REVENUES:</b>				
Taxes	\$ 1,483,018	\$ -	\$ 1,483,018	\$ -
Franchise Fees	185,102	-	185,102	-
Intergovernmental	31,878	-	31,878	-
Charges for Services	191,047	2,210,220	2,401,267	58,387
Licenses and Permits	10,851	-	10,851	-
Capital & Operating Grants	248,639	436,437	685,076	-
Royalties	224,706	-	224,706	-
Fines	43,083	-	43,083	-
Donations	34,329	-	34,329	-
Investment Revenues	8,626	1,301	9,927	1,625
Miscellaneous Revenues	115,720	8,740	124,460	375
<b>TOTAL REVENUES</b>	<b>\$ 2,576,999</b>	<b>\$ 2,656,698</b>	<b>\$ 5,233,697</b>	<b>\$ 60,387</b>
<b>EXPENDITURES:</b>				
General Government	\$ 454,394	\$ 164,052	\$ 618,446	\$ 20,400
Public Safety	795,378	-	795,378	-
Culture & Recreation	512,097	89,347	601,444	37,372
Health & Welfare	256,505	234,999	491,504	-
Water & Sewer Operations	-	1,145,824	1,145,824	-
Interest Expense	-	46,056	46,056	8,097
Depreciation	436,949	368,919	805,868	45,082
Airport	103,860	27,738	131,598	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,559,183</b>	<b>\$ 2,076,935</b>	<b>\$ 4,636,118</b>	<b>\$ 110,951</b>
<b>EXCESS REVENUES BEFORE TRANSFER</b>	<b>\$ 17,816</b>	<b>\$ 579,763</b>	<b>\$ 597,579</b>	<b>\$ (50,564)</b>
<b>OTHER SOURCES (USES):</b>				
Transfers In	\$ 458,513	\$ 136,271	\$ 594,784	\$ 138,972
Transfers Out	(505,818)	(227,938)	(733,756)	-
<b>TOTAL OTHER SOURCES (USES)</b>	<b>\$ (47,305)</b>	<b>\$ (91,667)</b>	<b>\$ (138,972)</b>	<b>\$ 138,972</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>	<b>\$ (29,489)</b>	<b>\$ 488,096</b>	<b>\$ 458,607</b>	<b>\$ 88,408</b>

See accompanying notes to the financial statements.

**CITY OF HOBART, OKLAHOMA**  
**Footnotes to the Statements of Net Assets & Activities**  
**For the Year Ended June 30, 2012**

- A1. The City of Hobart, Oklahoma's financial reporting entity includes the primary government, and public works. Hobart Economic Development Authority, Hobart Industrial Development Authority, and Hobart Recreation Authority are the component units.
- A2. The statements of net assets and activities are reported on a modified cash basis of accounting. This 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
  - investments
  - utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues and certain liabilities and their related expenses are not recorded in these financial statements.

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

The City has implemented the new accounting and financial reporting provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. These new standards have changed the format and content of the financial statements from that used in periods prior to June 30, 2004.

- A3. Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three months or less.
- A4. Investments consist of long-term certificates of deposit and are reported at cost.
- A5. Capital assets are reported when they result from cash transactions and are net of accumulated depreciation where applicable.
- A6. Long-term debt is reported when the debt arises from a cash transaction.
- A7. Fund balance or net assets are displayed in three components:
- a. *Invested in capital assets, net of related debt* – 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 assets* – consists of net assets with constraints placed on the use either by an external group such as creditors, grantors, contributors, or laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.
  - c. *Unrestricted net assets* – all other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**CITY OF HOBART, OKLAHOMA**  
**Footnotes to the Statements of Net Assets & Activities - Continued**  
**For the Year Ended June 30, 2012**

- A8. The City is a party to various legal proceedings which normally occur in the course of government operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an advalorem tax over a three-year period by a City Sinking Fund for the payment of any court assessed judgment rendered against the City. While the outcome of the above noted proceedings cannot be predicted, due to the insurance coverage maintained by the City and the State statute relating to judgments, the City feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the City.
- A9. The City's policy is to eliminate inter-fund receivables and payables between funds in the statement of net assets to avoid the grossing up of balances.

**Management's Discussion and Analysis on the Governmental Funds:**

The fund financial statements provide detailed information about the City's most significant funds – not the City as a whole. Some funds are required to be established by State law and by debt covenants. However, the City Council may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's governmental funds are reported under the modified-cash basis of accounting as described in footnote A2.

The City's fiscal year ending 2012 sales tax collections of \$1,315,203 resulted in a increase of \$82,234 or an 6.7% increase which resulted in a increase in taxable sales of \$2,055,850.

The City's governmental funds revenues decreased by \$1,499,305, which was attributed mainly to an decrease in grant revenues of \$1,410,810, decrease in royalty revenues of \$174,898 and the remaining revenues increased by \$86,403.

The City's governmental funds capital assets, net of depreciation, decreased by \$176,707. Depreciation amounted to \$436,949 for the year.

The cash and investments of the governmental funds increased by \$147,219.

The City expenses for the governmental funds excluding capital outlay decreased by \$237,646. General government decreased \$26,699, public safety decreased \$4,829, culture & recreation decreased \$54,762, health & welfare decreased \$108,671, and airport decreased \$42,685. The expenses decreased despite an increase in insurance and workman's compensation insurance of \$50,549.

The City's total governmental funds had a increase in fund balance of \$147,219.

The City's governmental funds paid \$47,305 more in transfers than received from other funds during 2012 while the General fund received \$19,293 more in transfers from other funds.

The City paid wages of \$1,197,659 which was an decrease of \$129,807 or 10.8% from the previous year.

**CITY OF HOBART, OKLAHOMA**  
**Governmental Funds Statement of Net Assets**  
As of June 30, 2012

	General	Ltd Purpose Hotel Tax & Sales Tax	Other Government Funds	TOTAL GOVERNMENT FUNDS
<b>ASSETS:</b>				
Cash & Cash Equivalents	\$ 21,181	\$ 254,907	\$ 358,259	\$ 634,347
Investments	722,360	-	-	722,360
Restricted Cash & Equivalents	-	-	-	-
Deposits with insurance pool	4,531	-	-	4,531
Due from other funds	-	-	-	-
<b>TOTAL ASSETS</b>	<b>\$ 748,072</b>	<b>\$ 254,907</b>	<b>\$ 358,259</b>	<b>\$ 1,361,238</b>
<b>LIABILITIES AND FUND BALANCES:</b>				
Liabilities:				
Due to other funds	\$ -	\$ -	\$ -	\$ -
Due to others	-	-	-	-
<b>TOTAL LIABILITIES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
Fund Balances:				
Reserved for:				
Insurance Pool	\$ 4,531	-	-	\$ 4,531
Fixed Assets & Economic Development	-	254,907	-	254,907
Other Government Funds	-	-	146,155	146,155
Unreserved	743,541	-	212,104	955,645
<b>TOTAL FUND BALANCES</b>	<b>\$ 748,072</b>	<b>\$ 254,907</b>	<b>\$ 358,259</b>	<b>\$ 1,361,238</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 748,072</b>	<b>\$ 254,907</b>	<b>\$ 358,259</b>	<b>\$ 1,361,238</b>

See accompanying notes to the financial statements.

**CITY OF HOBART, OKLAHOMA**  
 Governmental Funds Statement of Activities & Fund Balance  
 For the Year Ended June 30, 2012

	General	Ltd Purpose Hotel Tax & Sales Tax	Other Government Funds	TOTAL GOVERNMENT FUNDS
<b>REVENUES:</b>				
Taxes	\$ 1,149,002	\$ 334,016	\$ -	\$ 1,483,018
Franchise Fees	120,524	-	64,578	185,102
Intergovernmental	31,878	-	-	31,878
Charges for Services	74,053	-	116,994	191,047
Licenses and Permits	10,851	-	-	10,851
Capital & Operating Grants	-	-	248,639	248,639
Royalties & Oil Leases	-	224,706	-	224,706
Fines	43,083	-	-	43,083
Donations	-	-	34,329	34,329
Investment Revenues	8,479	-	147	8,626
Miscellaneous Revenues	9,169	106,485	66	115,720
<b>TOTAL REVENUES</b>	<b>\$ 1,447,039</b>	<b>\$ 665,207</b>	<b>\$ 464,753</b>	<b>\$ 2,576,999</b>
<b>EXPENDITURES:</b>				
General Government	\$ 445,207	\$ 8,300	\$ 887	\$ 454,394
Public Safety	742,617	4,001	48,760	795,378
Culture & Recreation	488,180	-	23,917	512,097
Health & Welfare	-	256,505	-	256,505
Airport	-	-	103,860	103,860
Capital Outlay	-	117,359	142,882	260,241
<b>TOTAL EXPENDITURES</b>	<b>\$ 1,676,004</b>	<b>\$ 386,165</b>	<b>\$ 320,306</b>	<b>\$ 2,382,475</b>
<b>EXCESS (DEFICIENCY) OF REVENUES</b>	<b>\$ (228,965)</b>	<b>\$ 279,042</b>	<b>\$ 144,447</b>	<b>\$ 194,524</b>
<b>OTHER SOURCES (USES):</b>				
Transfers In	\$ 238,903	\$ 56,308	\$ 163,302	\$ 458,513
Transfers Out	(219,610)	(155,236)	(130,972)	(505,818)
<b>TOTAL OTHER SOURCES (USES)</b>	<b>\$ 19,293</b>	<b>\$ (98,928)</b>	<b>\$ 32,330</b>	<b>\$ (47,305)</b>
<b>NET CHANGES IN FUND BALANCES</b>	<b>\$ (209,672)</b>	<b>\$ 180,114</b>	<b>\$ 176,777</b>	<b>\$ 147,219</b>
Fund Balances - Beginning	957,744	74,793	181,482	1,214,019
<b>FUND BALANCES - ENDING</b>	<b>\$ 748,072</b>	<b>\$ 254,907</b>	<b>\$ 358,259</b>	<b>\$ 1,361,238</b>

See accompanying notes to the financial statements.



# CITY OF HOBART, OKLAHOMA

## Other Governmental Funds Statement of Activities & Fund Balances For the Year Ending June 30, 2012

	Library Cash Fund	911 Fund	Airport	Employee Medical	Cemetery Perpetual	Cemetery Care	Municipal Court	Seed Money	Beaut. Committee	Grant Fund	TOTAL OTHER GOVERNMENT
<b>REVENUES:</b>											
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Franchise Fees	64,578										64,578
Intergovernmental											
Charges for Services		113,919			1,175	1,900					116,994
Licenses and Permits											
Capital and Operating Grants	8,198		55,781							184,660	248,639
Royalties											
Fines											
Donations	10,508			50				5,881	17,890		34,329
Investment Revenues										14	147
Miscellaneous Revenues			66		112	21					66
<b>TOTAL REVENUES</b>	\$ 18,706	\$ 64,578	\$ 169,766	\$ -	\$ 162	\$ 1,196	\$ 1,900	\$ -	\$ 5,881	\$ 202,564	\$ 464,753
<b>EXPENDITURES:</b>											
General Government	\$ -							\$ -	\$ -	\$ 887	\$ 887
Public Safety	35,466						1,205			12,089	48,760
Streets											
Culture & Recreation	18,632								5,285		23,917
Health & Welfare											
Airport			103,860								103,860
Capital Outlay	32,162		73,685							37,035	142,882
<b>TOTAL EXPENDITURES</b>	\$ 18,632	\$ 67,628	\$ 177,545	\$ -	\$ -	\$ -	\$ 1,205	\$ -	\$ 5,285	\$ 50,011	\$ 320,306
<b>EXCESS OF REVENUES</b>	\$ 74	\$ (3,050)	\$ (7,779)	\$ -	\$ 162	\$ 1,196	\$ 695	\$ -	\$ 596	\$ 152,553	\$ 144,447
<b>OTHER SOURCES (USES):</b>											
Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,302	\$ -	\$ -	\$ 163,302
Transfers Out										(130,972)	(130,972)
<b>TOTAL OTHER</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 163,302	\$ -	\$ (130,972)	\$ 32,330
<b>NET CHANGES</b>	\$ 74	\$ (3,050)	\$ (7,779)	\$ -	\$ 162	\$ 1,196	\$ 695	\$ 163,302	\$ 596	\$ 21,581	\$ 176,777
Fund Balances - Beginning	7,346	34,596	43,929	2,159	40,396	26,011	1,259	1,125	1,557	23,104	181,482
<b>FUND BALANCES - ENDING</b>	\$ 7,420	\$ 31,546	\$ 36,150	\$ 2,159	\$ 40,558	\$ 27,207	\$ 1,954	\$ 164,427	\$ 2,153	\$ 44,685	\$ 358,259

**CITY OF HOBART, OKLAHOMA**  
**Footnotes to Governmental Funds Financial Statements**  
**For the Year Ended June 30, 2012**

B1. The City's governmental funds are comprised of the following funds:

Major Funds:

- General Fund – accounts for all activities of administering and maintaining the City
- Limited Purpose Sales Tax Fund – accounts for certain sales tax revenues legally restricted for street improvements, sewer improvements, and utility equipment

Non-Major Funds:

- Cemetery Care Fund – accounts for 12.5% of cemetery revenue restricted by State law for cemetery capital improvements.
- Cemetery Trust Fund – accounts for specific cemetery donations which are restricted for cemetery use only.
- Library Cash Fund – accounts for all library revenues restricted for library use only.
- 911 Fund – accounts for the City's share of E-911 customer assessment that is legally restricted for improvements to the system.
- Municipal Airport Fund – accounts for certain revenues and expenditures on the airport.
- Seed Money Fund – accounts for funds set aside to make improvements and fund projects.

B2. The governmental funds are reported on a modified cash basis of accounting, as described in footnote A2, and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheet or statement of net assets. The statement of activities present sources and uses of available spendable financial resources during a given period. These fund financial statement use fund balance or net assets as their measure of available spendable financial resources at the end of the period.

B3. Sales tax revenues represents a four (4) cent local tax on each dollar of taxable sales within the City. Three (3) cents is deposited into the General Fund and one (1) cent is deposited into the Limited Purpose Sales Tax Fund. The sales tax in the Limited Purpose Sales Tax Fund is legally restricted at one-half a cent for solid waste, one-fourth for ambulance, and one-fourth for capital outlay.

B4. The City presently levies no property tax. In accordance with state law, a municipality may only levy a property tax to retire general obligation debt approved by the voters or to pay judgments rendered against the City.

B5. As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences and compensatory time earned but unpaid at year end, and any employer-related costs earned and unpaid, are not reflected in the financial statements.

**CITY OF HOBART, OKLAHOMA**  
**Management's Discussions and Analysis –Proprietary Funds**  
**For the Year Ended June 30, 2012**

The proprietary funds consist primarily of the Utilities Authority, known as the Public Works Authority, generally receives funds through the services of providing the different utilities to the customers of the City. The proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, the proprietary fund capital assets are capitalized and depreciated as well as principal payments on long-term debt are recorded as a reduction of the liability rather than as an expenditure.

For the year ended June 30, 2012, the proprietary funds reported operating income on a modified cash basis, before inter-fund transfers and depreciation, of \$548,260. The current note payments are \$238,047 which indicated an ability to make its payments from its revenues without inter-fund transfers. This indicates that in 2012, the rates charged for utility services were sufficient to fund the combined costs of operation of all utilities without decreasing expenditures, but did not leave much for improvements without additional loan proceeds. The change in net assets increased from 2011 by \$488,096 with net transfers to other funds of \$91,667. A large portion of the increase in revenues and net assets is due to the grant revenues of \$436,437.

The City's management intends for its revenue-pledged debt to be repaid by utility resources derived from utility rate changes. As a goal, City management desires to maintain net revenues from utility operations sufficient to meet the principal and interest payments on long-term debt by 1.25 times while 2012 shows net revenues before transfers and depreciation of 2.35 times. This represents a debt service coverage that is sufficiently above management's desired minimum.

The City's proprietary funds increased its long-term debt by 26.3% during the year ending June 30, 2012 or an increase of \$369,917.

The City purchased and constructed capital assets during the year through the proprietary fund of \$2,506,719 mainly for the construction of a sewer project. The construction in progress carryover from previous years amounted to \$1,592,245 which was included in the total purchases and capitalized when completed during the year.

The operating and other revenues, excluding grants, of the proprietary fund increased by \$280,890 or 14.5%.

The cash and investments of the proprietary funds increased by \$292,994.

The City's proprietary funds operating expenditure excluding depreciation decreased from 2011 by \$81,758.

**CITY OF HOBART, OKLAHOMA**  
 Proprietary Funds Statement of Net Assets  
 As of June 30, 2012

<b>ASSETS:</b>	
Current Assets:	
Cash & Cash Equivalents	\$ 483,427
Investments	-
<b>Total Current Assets</b>	<u>\$ 483,427</u>
Noncurrent Assets:	
Restricted Cash & Equivalents	\$ 107,002
Construction In Progress	-
Capital Assets:	
Land	216,700
Other Capital Assets, net of depreciation	5,470,204
<b>Total Noncurrent Assets</b>	<u>\$ 5,793,906</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 6,277,333</u></u>
<b>LIABILITIES AND NET ASSETS:</b>	
Current Liabilities:	
Draft Payables & Overdrawn Accounts	\$ 10,469
Due to depositors	64,673
Current portion of noncurrent liabilities	246,659
<b>Total Current Liabilities</b>	<u>\$ 321,801</u>
Noncurrent Liabilities:	
Notes payable	\$ 1,778,522
Capital lease payable	-
Less: Current portion of noncurrent liabilities	(246,659)
<b>Total Noncurrent Liabilities</b>	<u>\$ 1,531,863</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 1,853,664</u></u>
Net Assets:	
Restricted for:	
Debt Service	\$ 107,002
System Improvements	648,104
Invested in capital assets, net of debt	3,474,274
Unrestricted	194,289
<b>TOTAL NET ASSETS</b>	<u>\$ 4,423,669</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 6,277,333</u></u>

See accompanying notes to the financial statements.

**CITY OF HOBART, OKLAHOMA**  
 Proprietary Funds Statement of Activities & Fund Balance  
 For the Year Ended June 30, 2012

<b>OPERATING REVENUES:</b>	
Water	\$ 1,242,815
Sewer	420,887
Sanitation	471,497
Connect, Reconnect & Transfer fees	24,686
Late fees	29,790
Miscellaneous Revenues	<u>20,545</u>
<b>Total Operating Revenues</b>	<b><u>\$ 2,210,220</u></b>
<b>OPERATING EXPENSES:</b>	
Administration	\$ 164,052
Water & Sewer operations	1,145,824
Solid Waste	234,999
Airport & Recreation	117,085
Depreciation	<u>368,919</u>
<b>Total Operating Expenses</b>	<b><u>\$ 2,030,879</u></b>
<b>OPERATING INCOME (LOSS)</b>	<b><u>\$ 179,341</u></b>
<b>OTHER REVENUES (EXPENSES):</b>	
Investment Revenues	\$ 1,301
Grant Revenues	436,437
Farm Rent	8,740
Interest Expense	<u>(46,056)</u>
<b>Total Other Revenues(Expenses)</b>	<b><u>\$ 400,422</u></b>
<b>NET INCOME (LOSS) BEFORE TRANSFERS</b>	<b>\$ 579,763</b>
Transfers In	136,271
Transfers Out	<u>(227,938)</u>
<b>CHANGES IN NET ASSETS</b>	<b>\$ 488,096</b>
Net Assets - Beginning	<u>3,935,573</u>
<b>NET ASSETS - ENDING</b>	<b><u>\$ 4,423,669</u></b>

See accompanying notes to the financial statements.

**CITY OF HOBART, OKLAHOMA**  
**Proprietary Funds Statement of Cash Flows**  
For the Year Ended June 30, 2012

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Receipts from customers	\$ 2,189,675
Payments to suppliers	(1,172,269)
Payments to employees & benefits	(509,155)
Miscellaneous Revenues	20,545
<b>Net Cash Provided by Operating Activities</b>	<b><u>\$ 528,796</u></b>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:**

Purchase of capital assets	\$ (2,506,719)
Payments for construction in progress	1,592,245
Proceeds from long term notes	561,450
Grant proceeds	436,437
Principal paid on debt	(191,533)
Interest paid on debt	(46,056)
<b>Net Cash Used In Capital &amp; Related Financing Activities</b>	<b><u>\$ (154,176)</u></b>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Investment Revenues	\$ 1,301
Farm Rent	8,740
<b>Net Cash Provided from Investing Activities</b>	<b><u>\$ 10,041</u></b>

**CASH FLOWS FROM OTHER ACTIVITIES:**

Transfers In	\$ 136,271
Transfers Out	(227,938)
<b>Net Cash Used in Other Activities</b>	<b><u>\$ (91,667)</u></b>

**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**

	\$ 292,994
Cash Balance - Beginning	<u>190,433</u>

**CASH BALANCE - ENDING**

**\$ 483,427**

**Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:**

Operating Income (Loss)	\$ 179,341
Adjustments to reconcile operating income to net cash provided (used) by Operating Activities:	
Depreciation expense	368,919
Change in assets and liabilities:	
Draft Payable	(19,464)
Meter Deposits	-

**Net Cash Provided from Operating Activities**

**\$ 528,796**

**CITY OF HOBART, OKLAHOMA**  
**Footnotes to Proprietary Funds Financial Statements**  
**For the Year Ended June 30, 2012**

- C1. The proprietary funds are reported on a modified cash basis, as defined in footnote A2, and economic resources measurement focus. Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.
- C2. For the purpose of the cash flow statement, cash and cash equivalents includes all demand and savings accounts and certificates of deposit.
- C3. As a result of the City's use of the modified cash basis of accounting, accrued liabilities related to compensated absences and compensatory time earned but unpaid at year end, and any employer-related costs earned and unpaid, are not reflected in the financial statements.

C4. Long-term debt of the proprietary funds consisted of the following:

	<u>Balance</u>	<u>Current Portion</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Notes Payable – OWRB (a)	\$ 105,285	\$ 9,623	3.215%	9-15-21
Notes Payable – OWRB (b)	338,100	102,300	2.490%	2-15-15
Notes Payable – OWRB (c)	809,312	52,000	*	*
Notes Payable – OWRB (d)	<u>525,825</u>	<u>82,736</u>	1.81%	9-15-19
 Total Long-term debt	 <u>\$1,778,522</u>	 <u>\$ 246,659</u>		

Notes a – d were paid in full during the year.

The long-term debt principle payments for the next four years are as follows:

<u>Year Ended</u>	<u>Note a</u>	<u>Note b</u>	<u>Note c</u>	<u>Note d</u>
2014	9,839	110,550	(*)	67,548
2015	10,266	125,250		68,793
2016	10,597	-0-		70,047
2017	11,132	-0-		71,353

(\*) – The note payments, interest rate, & maturity were not made available as of the date of the audit.

**Management's Discussion and Analysis on the Budgetary Results:**

The General Fund reported actual budgetary basis revenues above final estimates by \$15,328 or a 0.92% positive variance. General Fund actual expenditures were more than final appropriations by \$248,200 or a 15.1% unfavorable variance. For the year ended June 30, 2012, budgetary fund balance decreased by \$232,872 leaving a balance of \$564,294.

This represents a fair level of reserves and above the 30% desired level by management.

**CITY OF HOBART, OKLAHOMA**  
 Budgetary Comparison Schedule of General Fund  
 For the Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance</b>	\$ 773,966	\$ 773,966	\$ 773,966	\$ -
<b>Resources (Inflows):</b>				
<b>TAXES:</b>				
Sales Tax	\$ 915,000	\$ 915,000	\$ 986,267	\$ 71,267
Use Tax	70,000	70,000	66,140	(3,860)
Cigarette Tax	17,400	17,400	19,117	1,717
Alcohol Beverage Tax	50,000	50,000	51,135	1,135
Gas Tax	7,000	7,000	7,101	101
Motor Vehicle Tax	29,000	29,000	19,242	(9,758)
<b>Total Taxes</b>	<b>\$ 1,088,400</b>	<b>\$ 1,088,400</b>	<b>\$ 1,149,002</b>	<b>\$ 60,602</b>
<b>INTERGOVERNMENTAL:</b>				
Reimbursed Revenue	\$ 32,300	\$ 32,300	\$ 31,878	\$ (422)
Rebate Revenue	-	-	-	-
Rental Income	-	-	-	-
<b>Total Intergovernmental</b>	<b>\$ 32,300</b>	<b>\$ 32,300</b>	<b>\$ 31,878</b>	<b>\$ (422)</b>
<b>FRANCHISE FEES:</b>				
PSO	\$ 79,000	\$ 79,000	\$ 76,275	\$ (2,725)
Cable	21,000	21,000	16,658	(4,342)
ONG	24,000	24,000	19,027	(4,973)
SW Bell	20,000	20,000	8,564	(11,436)
<b>Total Franchise Fees</b>	<b>\$ 144,000</b>	<b>\$ 144,000</b>	<b>\$ 120,524</b>	<b>\$ (23,476)</b>
<b>CHARGES FOR SERVICES:</b>				
Swimming Pool	\$ 10,150	\$ 10,150	\$ 19,559	\$ 9,409
Cemetery Revenues	5,600	5,600	8,225	2,625
Ambulance Fees	3,700	3,700	35,143	31,443
Other Charges	5,500	5,500	11,126	5,626
<b>Total Charges for Services</b>	<b>\$ 24,950</b>	<b>\$ 24,950</b>	<b>\$ 74,053</b>	<b>\$ 49,103</b>
<b>LICENSES AND PERMITS</b>	<b>\$ 8,730</b>	<b>\$ 8,730</b>	<b>\$ 10,851</b>	<b>\$ 2,121</b>
<b>GRANTS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>FINES:</b>				
Police	\$ 17,000	\$ 17,000	\$ 25,894	\$ 8,894
Other Fines & Court Costs	14,350	14,350	17,189	2,839
<b>Total Fines</b>	<b>\$ 31,350</b>	<b>\$ 31,350</b>	<b>\$ 43,083</b>	<b>\$ 11,733</b>
<b>DONATIONS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

(Continued on Next Page)

**CITY OF HOBART, OKLAHOMA**  
 Budgetary Comparison Schedule of General Fund - Continued  
 For the Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
<b>INVESTMENT REVENUES</b>	\$ 10,000	\$ 10,000	\$ 8,479	\$ (1,521)
<b>MISCELLANEOUS REVENUES</b>	\$ 54,200	\$ 54,200	\$ 9,169	\$ (45,031)
<b>TRANSFERS FROM OTHER FUNDS</b>	176,684	276,684	238,903	(37,781)
<b>TOTAL RESOURCES (INFLOWS)</b>	<b>\$ 1,570,614</b>	<b>\$ 1,670,614</b>	<b>\$ 1,685,942</b>	<b>\$ 15,328</b>
<b>AMOUNT AVAILABLE TO APPROPRIATE</b>	<b>\$ 2,344,580</b>	<b>\$ 2,444,580</b>	<b>\$ 2,459,908</b>	<b>\$ 15,328</b>
<b>APPROPRIATIONS (OUTFLOWS):</b>				
<b>CITY CLERK:</b>				
Personnel services	\$ 104,810	\$ 104,810	\$ 86,272	\$ 18,538
Materials & Supplies	2,200	2,200	516	1,684
Others services & charges	4,650	4,650	3,197	1,453
<b>Total City Clerk</b>	<b>\$ 111,660</b>	<b>\$ 111,660</b>	<b>\$ 89,985</b>	<b>\$ 21,675</b>
<b>CITY ATTORNEY/JUDGE:</b>				
Personnel services	\$ 27,592	\$ 27,592	\$ 25,961	\$ 1,631
Materials & supplies	250	250	-	250
Other services & charges	450	450	404	46
<b>Total City Attorney</b>	<b>\$ 28,292</b>	<b>\$ 28,292</b>	<b>\$ 26,365</b>	<b>\$ 1,927</b>
<b>GROUNDS:</b>				
Personnel services	\$ 169,022	\$ 169,022	\$ 162,140	\$ 6,882
Materials & supplies	109,150	109,150	131,629	(22,479)
Other services & charges	57,350	57,350	67,008	(9,658)
Capital outlay	-	-	-	-
<b>Total Groundskeeping</b>	<b>\$ 335,522</b>	<b>\$ 335,522</b>	<b>\$ 360,777</b>	<b>\$ (25,255)</b>
<b>POLICE:</b>				
Personnel services	\$ 472,094	\$ 472,094	\$ 460,551	\$ 11,543
Materials & supplies	30,748	30,748	33,982	(3,234)
Other services & charges	47,250	47,250	40,666	6,584
<b>Total Police</b>	<b>\$ 550,092</b>	<b>\$ 550,092</b>	<b>\$ 535,199</b>	<b>\$ 14,893</b>
<b>MUNICIPAL COURT:</b>				
Cleet & OSBI	\$ -	\$ -	\$ 4,013	\$ (4,013)
<b>Total Municipal Court</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 4,013</b>	<b>\$ (4,013)</b>

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# CITY OF HOBART, OKLAHOMA

## Budgetary Comparison Schedule of General Fund - Continued For the Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance Positive (Negative)
	Original	Final		
<b>FIRE:</b>				
Personnel services	\$ 184,107	\$ 184,107	\$ 187,875	\$ (3,768)
Materials & supplies	14,800	14,800	7,247	7,553
Other services & charges	16,100	16,100	12,297	3,803
<b>Total Fire</b>	<b>\$ 215,007</b>	<b>\$ 215,007</b>	<b>\$ 207,419</b>	<b>\$ 7,588</b>
<b>LIBRARY:</b>				
Personnel services	\$ 99,090	\$ 99,090	\$ 97,562	\$ 1,528
Materials & supplies	2,100	2,100	2,907	(807)
Other services & charges	25,550	25,550	26,934	(1,384)
<b>Total Library</b>	<b>\$ 126,740</b>	<b>\$ 126,740</b>	<b>\$ 127,403</b>	<b>\$ (663)</b>
<b>GENERAL GOVERNMENT:</b>				
Personnel services	\$ 20,526	\$ 20,526	\$ 13,711	\$ 6,815
Materials & supplies	7,975	7,975	18,270	(10,295)
Other services & charges	251,600	251,600	292,862	(41,262)
Capital Outlay	-	-	-	-
<b>Total General Government</b>	<b>\$ 280,101</b>	<b>\$ 280,101</b>	<b>\$ 324,843</b>	<b>\$ (44,742)</b>
<b>TRANSFERS TO OTHER FUNDS</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 219,610</b>	<b>\$ (219,610)</b>
<b>TOTAL APPROPRIATIONS</b>	<b>\$ 1,647,414</b>	<b>\$ 1,647,414</b>	<b>\$ 1,895,614</b>	<b>\$ (248,200)</b>
<b>ENDING BUDGETARY FUND BALANCE</b>	<b>\$ 697,166</b>	<b>\$ 797,166</b>	<b>\$ 564,294</b>	<b>\$ (232,872)</b>

**Footnotes to Budgetary Comparison:**

- D1. The budgetary comparison schedule is reported on the same modified cash basis as governmental funds within the basic financial statements.
- D2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require Council approval.

**CITY OF HOBART, OKLAHOMA**  
**Schedule of Deposits and Investments**  
**For the Year Ended June 30, 2012**

**Managements Discussions and Analysis on Deposits and Investment Risk:**

For the year ended June 30, 2012, the City recognized \$9,927 of investment income. Due to the rates of return on allowable investments in the current environment, all of the City's deposits are in demand deposits and certificates of deposit. The investment income decreased by \$9,193 from the previous year's income or 48.1% from a decrease in interest rates.

The City's 2012 total cash and investment balances of \$1,947,136 have increased during the year by \$503,322 or 25.8%.

**Schedule of Deposits and Investments:**

Demand Deposits	\$ 1,116,874
Cash on Hand	900
Trustee Accts, debt service	107,002
Certificate of Deposit	<u>722,360</u>
 Total	 \$ <u>1,947,136</u>

**Reconciliation to Statement of Net Assets:**

Cash and Cash Equivalents	\$ 1,117,774
Restricted Cash & Cash Equivalents	107,002
Investments	<u>722,360</u>
Total	\$ <u>1,947,136</u>

**Footnotes to Schedule of Deposits and Investments:**

- E1. *Custody Credit Risk* – deposits in financial institutions, reported as cash & cash equivalents and investments, were insured by depository insurance and/or secured with collateral held by the City's agent in its name.
- E2. *Investment Interest Rate Risk* – the City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing rates.

*Investment Credit Risk* – the City has no investment policy that limits its investment choices other than the limitations of state law that generally authorizes investments in: (1) government obligations; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) certain negotiable instruments; (4) county, municipal or school district supported debt obligations.

*Concentration of Investment Credit Risk* – the City places no limit on the amount it may invest in any one issuer.

**CITY OF HOBART, OKLAHOMA**  
**Management's Discussions and Analysis – Capital Assets**  
**For the Year Ended June 30, 2012**

During the year ended June 30, 2012, the City purchased capital assets of \$260,241 through the Governmental Funds and \$2,506,719 through the Proprietary Funds. The City's component units, Hobart Recreation Authority purchased assets at the amount of \$9,560 and Hobart Economic Development Authority purchased \$305,142. The City received grant funds to offset the cost of the assets in the amount of \$1,741,972. The City borrowed no funds for the purchase of capital assets through grant, reserves, and current revenues.

As of June 30, 2012, the City owned approximately \$33.0 million of capital assets with accumulated depreciation on the depreciable capital assets totaling approximately \$21.2 million. This indicates that, on the average, these City capital assets have approximately 36% of their depreciable useful life remaining.

Total combined depreciation for the year ending June 30, 2012 amounted to \$850,950.

**CITY OF HOBART**  
**SCHEDULE OF CAPITAL ASSETS:**

**PROPRIETARY FUND ASSETS:**

For the Year 6/30/2012	Balance 7/1/2011	Additions	Deletions	Balance 6-30-2012
Land	\$ 216,700.00	\$ -	\$ -	\$ 216,700.00
Building	420,671.00	-	-	420,671.00
Machinery & Equipment	561,885.41	-	-	561,885.41
Vehicles	126,964.00	-	-	126,964.00
Utility System	19,024,520.73	2,506,719.30	-	21,531,240.03
Infrastructure	446,698.38	-	-	446,698.38
<b>TOTAL</b>	<b>\$ 20,797,439.52</b>	<b>\$ 2,506,719.30</b>	<b>\$ -</b>	<b>\$ 23,304,158.82</b>
<b>ACCUMULATED DEPRECIATION:</b>				
Building	\$ 248,835.77	\$ 6,257.74	\$ -	\$ 255,093.51
Machinery & Equipment	407,160.38	34,837.64	-	441,998.02
Vehicles	74,378.50	7,011.40	-	81,389.90
Utility System	16,396,359.95	305,922.53	-	16,702,282.48
Infrastructure	121,601.19	14,889.94	-	136,491.13
<b>TOTAL ACCUM. DEP.</b>	<b>\$ 17,248,335.79</b>	<b>\$ 368,919.25</b>	<b>\$ -</b>	<b>\$ 17,617,255.04</b>
<b>NET FIXED ASSETS</b>	<b>\$ 3,549,103.73</b>	<b>\$ 2,137,800.05</b>	<b>\$ -</b>	<b>\$ 5,686,903.78</b>

**HOBART ECONOMIC DEVELOP AUTHORITY:**

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings	\$ 134,644.39	\$ 305,141.80	\$ -	\$ 439,786.19
Accumulated Depreciation	47,325.19	12,277.73	-	59,602.92
<b>NET FIXED ASSETS FOR HEDA</b>	<b>\$ 87,319.20</b>	<b>\$ 292,864.07</b>	<b>\$ -</b>	<b>\$ 380,183.27</b>

**HOBART RECREATION AUTHORITY:**

	Beginning Balance	Additions	Deletions	Ending Balance
Buildings	456,970.00	-	-	456,970.00
Machinery & Equipment	147,122.54	9,560.00	-	156,682.54
Land & Improvements	234,450.00	-	-	234,450.00
<b>TOTAL</b>	<b>\$ 838,542.54</b>	<b>\$ 9,560.00</b>	<b>\$ -</b>	<b>\$ 848,102.54</b>
<b>ACCUMULATED DEPRECIATION:</b>				
Buildings	37,681.83	15,232.33	-	52,914.16
Machinery & Equipment	26,312.18	12,382.12	-	38,694.30
Land & Improvements	11,595.00	5,190.00	-	16,785.00
<b>TOTAL ACCUM. DEPRECIATION</b>	<b>\$ 75,589.01</b>	<b>\$ 32,804.45</b>	<b>\$ -</b>	<b>\$ 108,393.46</b>
<b>NET FIXED ASSETS - RECREATION</b>	<b>\$ 762,953.53</b>	<b>\$ (23,244.45)</b>	<b>\$ -</b>	<b>\$ 739,709.08</b>

**CITY OF HOBART**  
**SCHEDULE OF CAPITAL ASSETS:**

**GENERAL FIXED ASSET GROUP:**

For the Year 6/30/2012	Balance 7/1/2011	Additions	Deletions	Balance 6/30/2012
Land & Improvements	\$ 1,693,047.88	\$ -	\$ -	\$ 1,693,047.88
Building	2,508,413.45	99,045.10	-	2,607,458.55
Machinery & Equipment	1,299,381.60	89,583.65	-	1,388,965.25
Vehicles	1,206,666.50	-	-	1,206,666.50
Infrastructure	1,504,904.15	71,612.24	-	1,576,516.39
<b>TOTAL</b>	<b>\$ 8,212,413.58</b>	<b>\$ 260,240.99</b>	<b>\$ -</b>	<b>\$ 8,472,654.57</b>
<b>ACCUMULATED DEPRECIATION:</b>				
Land Improvements	\$ 409,912.32	\$ 123,306.31	\$ -	\$ 533,218.63
Building	844,503.42	81,564.31	-	926,067.73
Machinery & Equipment	706,653.92	92,000.35	-	798,654.27
Vehicles	757,329.40	84,272.00	-	841,601.40
Infrastructure	287,256.09	55,805.94	-	343,062.03
<b>TOTAL ACCUM. DEP.</b>	<b>\$ 3,005,655.15</b>	<b>\$ 436,948.91</b>	<b>\$ -</b>	<b>\$ 3,442,604.06</b>
<b>NET FIXED ASSETS</b>	<b>\$ 5,206,758.43</b>	<b>\$ (176,707.92)</b>	<b>\$ -</b>	<b>\$ 5,030,050.51</b>

**Footnotes to the Schedule of Capital Assets:**

F1. Capital assets are reported at actual or estimated historical cost at the time of the cash transaction. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1996. Prior to July 1, 2003, governmental funds' infrastructure assets, such as streets, drainage systems, and traffic signal systems were not being capitalized. Infrastructure assets acquired since July 1, 2003 are recorded at cost.

F2. Depreciable capital assets are depreciated on a straight-line basis over their estimated useful life. A capitalization threshold of \$500 is used to report capital assets. The range of estimated useful lives by type of assets is as follows:

Buildings	30-50 years
Improvements other than buildings	10-25 years
Machinery, furniture and equipment	3-20 years
Utility property and improvements	10-50 years
Infrastructure	5-50 years

**CITY OF HOBART, OKLAHOMA**  
**Management's Discussions and Analysis – Pension Plans**  
**For the Year Ended June 30, 2012**

The City participates in three pension or retirement plans:

- a. Oklahoma Police Pension and Retirement System (OPPRS) – a statewide cost sharing plan
- b. Oklahoma Firefighter's Pension and Retirement System (OFPRS) – a statewide cost sharing plan
- c. Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF) – an agent multiple-employer defined contribution plan

**Schedule of Retirement Plan Contributions:**

<u>Year</u>	<u>Police</u>	<u>Firefighters</u>	<u>OMRF</u>
2010	38,042	18,960	63,019
2011	44,576	19,354	67,562
2012	38,813	18,686	50,420

**Footnotes to Schedule of Retirement Plan Contributions:**

- G1. Since July 1, 1994, the City has provided a defined contribution plan and trust known as the City of Hobart Plan and Trust ("the Plan") in the form of the Oklahoma Municipal Retirement System Master Defined Contribution Plan (OMRF). The defined contribution plan is available to all full-time employees except those participating in the state fire or police pensions. After 6 months, full-time employees can participate and contribute to the Plan up to 5% upon their option. The contribution rate of the City's participation is presently 10%.

The OMRF System issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained by writing to OMRF, P.O. Box 25848, Oklahoma City, OK 73125 or by calling 1-888-394-6673.

- G2. Pursuant to the requirements of Title 11, section 22-102, the City of Hobart participates in the statewide cost-sharing multi-employer defined benefit plan administered by the Oklahoma Police Pension and Retirement System (OPPRS). The paid police person contributes 8% to the plan and the City is required by state law to contribute 13% per year per paid police person to the statewide plan. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OPPRS issues a publicly available report that includes financial statements, which can be obtained from the Oklahoma Police Pension and Retirement System, 1001 N.W. 63<sup>rd</sup> Street, Oklahoma City, OK 73116-7335.

- G3. Pursuant to the requirements of Title 11, section 22-102, the City of Hobart participates in the statewide cost sharing multi-employer defined benefit plan administered by the Oklahoma Firefighters Pension Board on behalf of both paid and volunteer firefighters. The paid firefighter contributes 8% to the plan. The City is required by state law to contribute 13% per year per paid firefighter to the statewide plan. The plan is funded by contributions from the participant, employers, insurance premium taxes, and state appropriations, as necessary.

A copy of the Firefighters Statewide Pension Plan financial statements can be obtained from the Oklahoma Firefighters Pension System, 4545 Lincoln Blvd. Suite 263, Oklahoma City, OK 73105-3707.

**CITY OF HOBART, OKLAHOMA**  
**Management's Discussions and Analysis – Federal and State Awards**  
**For the Year Ended June 30, 2012**

The City of Hobart participated in various federal and state grant programs during the year ending June 30, 2012. The grant programs are often subject to additional audits by agents of the granting programs which is to ensure compliance with the specific conditions of the program. The City has not been notified of any noncompliance with any of the federal or state award requirements.

The City received \$685,076 in federal and state awards in the year ending June 30, 2012. This represents 28.6% of the City's total revenues for the fiscal year.

The PW & ED Facilities Assistance grant from US Dept. of Commerce requires a matching cost of \$1,000,000 for water and wastewater improvements.

**CITY OF HOBART, OKLAHOMA**  
**SCHEDULE OF EXPENDITURES OF FEDERAL & STATE AWARDS**  
For the Year Ending June 30, 2012

Federal/State Grantor/Pass thru Agency Grantor/Program Title	Federal CFDA Number	Pass thru Grant Number	Award Amount	Receipts	Expenditures
<b>FEDERAL AWARDS:</b>					
US Dept. of Housing & Urban Dev - Home Investment Partnership Program	14.239	1273 Home 09	\$ 260,000	\$ -	\$ -
US Dept of Transportation - Passed through Federal Aviation Admin. Airport Improvement Program	20.106		\$ 600,000	\$ 55,781	\$ 55,781
US Dept. of Commerce - PW & ED Facilities Asst - Const of water and wastewater system improvements	11.300	08-01-04165	\$ 1,000,000	\$ 436,437	\$ 436,437
<b>TOTAL FEDERAL FUNDS</b>			<b>\$ 1,860,000</b>	<b>\$ 492,218</b>	<b>\$ 492,218</b>
<b>STATE AWARDS:</b>					
Oklahoma Dept. of Commerce: CDBG - Building (Sesaco)	N/A	1401 ED 87	\$ 609,109	\$ 37,035	\$ 37,035
CDBG - Building (183 Recyclers)	N/A	14496 ED 10	145,400	130,972	130,972
			<b>\$ 754,509</b>	<b>\$ 168,007</b>	<b>\$ 168,007</b>
Oklahoma Dept. of Library: Library Books & Materials	N/A		\$ -	\$ 8,198	\$ 8,198
Oklahoma Dept. of Agriculture: Fire Operating Grant	N/A		\$ 6,653	\$ 6,653	\$ 6,653
Oklahoma Dept. of Emergency Management: Emergency Management	N/A		\$ 10,000	\$ 10,000	\$ 4,306
<b>TOTAL STATE AWARDS</b>			<b>\$ 771,162</b>	<b>\$ 192,858</b>	<b>\$ 187,164</b>

**Footnotes to Schedule of Expenditures of Federal & State Awards:**

- H1. The Schedule of Expenditures of Federal and State Awards is prepared on a modified cash basis.
- H2. The City matches the cost for PW & ED Facilities award of \$1,000,000. The amount reported in the expenditures is the 50% expended by grant funds and has been matched by the City.
- H3. CDBG requires matching funds of \$1,344,000 which have been paid by Sesaco and Sesaco proposes to create 37 new jobs with at least 19 being made available to low and moderate income persons within 24 months.
- H4. CDGB grant requires matching contributions by the City of \$175,800 and 183 Recyclers of \$115,200. The City has contributed \$174,169 during this fiscal year and plans on finishing the project in next fiscal year. The company also proposes to create 5 new jobs with at least 3 being made available to low and moderate income persons with 36 mos.

## CITY OF HOBART

### Component Units Statement of Net Assets-Modified Cash Method As of 6-30-12

<b>ASSETS:</b>	<b>HEDA</b>	<b>Recreation</b>	<b>TOTAL</b>
Cash & Equivelant	\$ 69,439	\$ 11,057	\$ 80,496
Investments	-	-	-
Restricted Cash	-	-	-
Deposits w/ insurance pool	-	-	-
Due from others	81,455	-	81,455
Capital Assets, net of depreciation	380,183	739,709	1,119,892
<b>TOTAL ASSETS</b>	<b>\$ 531,077</b>	<b>\$ 750,766</b>	<b>\$ 1,281,843</b>
<b>LIABILITIES:</b>			
Due to other funds	\$ 31,815	\$ -	\$ 31,815
Liability - due within one year	9,392	-	9,392
Liability - due over one year	228,039	-	228,039
<b>TOTAL LIABILITIES</b>	<b>\$ 269,246</b>	<b>\$ -</b>	<b>\$ 269,246</b>
<b>NET ASSETS:</b>			
Reserved for economic development	\$ 113,271	\$ -	\$ 113,271
Reserved for capital assets, net of liab	147,207	739,709	886,916
Unreserved	1,353	11,057	12,410
<b>TOTAL NET ASSETS</b>	<b>\$ 261,831</b>	<b>\$ 750,766</b>	<b>\$ 1,012,597</b>
<b>TOTAL LIAB &amp; NET ASSETS</b>	<b>\$ 531,077</b>	<b>\$ 750,766</b>	<b>\$ 1,281,843</b>

# CITY OF HOBART

## Component Units Statement of Activities-Modified Cash Method As of 6-30-12

	HEDA	Recreation	TOTAL
<b>REVENUES:</b>			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Charges for services	21,100	37,287	58,387
Grants	-	-	-
Royalties	-	-	-
Investment receipts	1,625	-	1,625
Miscellaneous receipts	375	-	375
Donations	-	-	-
<b>TOTAL REVENUES</b>	<b>\$ 23,100</b>	<b>\$ 37,287</b>	<b>\$ 60,387</b>
<b>EXPENDITURES:</b>			
General Govt	\$ 20,400	\$ -	\$ 20,400
Public Safety	-	-	-
Culture & Recreation	-	37,372	37,372
Health & Welfare	-	-	-
Airport	-	-	-
Capital Outlay & Lease	-	-	-
Interest Expense	8,097	-	8,097
Depreciation Expense	12,278	32,804	45,082
<b>TOTAL EXPENDITURES</b>	<b>\$ 40,775</b>	<b>\$ 70,176</b>	<b>\$ 110,951</b>
<b>TRANSFERS:</b>			
Transfers In	\$ 138,972	\$ -	\$ 138,972
Transfers Out	-	-	-
<b>TOTAL TRANSFERS</b>	<b>\$ 138,972</b>	<b>\$ -</b>	<b>\$ 138,972</b>
<b>EXCESS RECEIPTS OR EXPEND.</b>	<b>\$ 121,297</b>	<b>\$ (32,889)</b>	<b>\$ 88,408</b>
<b>FUND BALANCE - BEGINNING</b>	<b>140,534</b>	<b>783,655</b>	<b>924,189</b>
<b>FUND BALANCE - END</b>	<b>\$ 261,831</b>	<b>\$ 750,766</b>	<b>\$ 1,012,597</b>

**CITY OF HOBART, OKLAHOMA**  
**Footnotes to Component Units Financial Statements**  
**For the Year Ended June 30, 2012**

H1. The component units of the City consist of the Hobart Economic Development Authority (HEDA), and the Hobart Recreation Authority. The component units are business-type activities that report on a modified cash basis, as defined in footnote A2, and economic resources measurement focus. Financial Accounting Standard Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied as applicable to the modified cash basis of accounting, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails.

H2. Long-term debt of the component unit HEDA consisted of the following:

	<u>Balance</u>	<u>Current Portion</u>	<u>Interest Rate</u>
Notes Payable – GPNB (a)	\$ 58,807	\$ 5,163	6.0%
Notes Payable – GPNB (b)	<u>178,624</u>	<u>4,229</u>	6.0%
 Total Long-term debt	 <u>\$ 237,431</u>	 <u>\$ 9,392</u>	

Notes a – d were paid in full during the year.

The long-term debt principle payments for the next four years are as follows:

<u>Year Ended</u>	<u>Note a</u>	<u>Note b</u>
2014	5,482	5,160
2015	5,821	5,479
2016	6,181	5,818
2017	6,563	6,177

**Management's Discussion and Analysis on the Component Units:**

The total component units cash and equivalents increased during the year in the amount of \$36,603 or 83.4%.

The total component units revenues increase by \$31,758 or 110.9%.

The total component units expenditures decreased by \$26,555 or 19.3%.

The capital assets for HEDA increased by \$305,142. A CDBG grant for the construction of two buildings was received during the year in the amount of \$168,007. Note proceeds from Great Plains National Bank of \$178,624 were used to match the grant on the construction of the building.

Hobart Recreation Authority purchased \$9,560 of capital assets during the year.

**CITY OF HOBART, OKLAHOMA**  
**Management's Discussions and Analysis – Internal Control and Compliance**  
**For the Year Ended June 30, 2012**

Management of the City is responsible for maintaining appropriate internal controls over financial reporting, to safeguard City assets and resources, to prevent and detect fraud, and for complying with applicable laws, regulations, and provisions of grants and contracts. As a part of the City's financial statement audit, the external auditor performed limited work in understanding the City's internal controls and testing compliance with certain financial-related requirements. The auditor's report on internal controls and compliance for the fiscal year ended June 30, 2012, follows along with the findings and recommendations made by the auditors. Management's response to any recommendation and planned corrective action are also included if any are required.

# Scott Northrip

*Certified Public Accountant*  
*P.O. Box 642, 311 S. Main St.*  
*Hobart, Oklahoma 73651*

## **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 City Council  
City of Hobart, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Hobart, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprises the City's basic financial statements and have issued our report thereon dated April 30, 2013. We conducted our 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.

### Internal Control

In planning and performing our audit, we considered City of Hobart, Oklahoma's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of City of Hobart, Oklahoma's internal control over financial reporting.

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

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

Report of Compliance and Internal Control over Financial Reporting - Continued

Compliance and Other Matters

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

However, we noted certain matters that we reported to management of the City of Hobart, in a separate letter dated April 30, 2013.

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

*Scott Northrip, CPA*

Scott Northrip, CPA

April 30, 2013

# *Scott Northrip*

*Certified Public Accountant*

*P.O. Box 642/311 S. Main St.*

*Hobart, OK 73651*

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

To the City Council  
Hobart, Oklahoma

### **Compliance**

We have audited City of Hobart, OK's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of City of Hobart, OK's major federal programs for the year ended June 30, 2012. City of Hobart, OK's major federal programs are identified in the schedule of expenditures of federal and state awards on page 31 as Airport Improvement Program and PW & ED Facilities Asst. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Hobart, OK's management. Our responsibility is to express an opinion on City of Hobart, OK's compliance based on our audit.

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

In our opinion, City of Hobart, OK, complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

## Internal Control over Compliance

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

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

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

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

*Scott Northrip, CPA*

Scott Northrip, CPA

April 30, 2013