

FINANCIAL STATEMENTS
AND
AUDITOR'S REPORTS

THE CITY OF HUGO
JUNE 30, 2011

TABLE OF CONTENTS

Independent Auditor's Report	1
Statement of Net Assets	3
Statement of Activities	4
Balance Sheet – Governmental Funds	5
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	6
Statement of Net Assets – Proprietary Funds	7
Statement of Revenue over Expenditures and Changes in Retained Earnings Proprietary Fund Type	8
Statement of Cash Flows	9
Notes to the Financial Statements	10
Independent Auditor's Report on the Internal Control Structure Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Schedule of Findings and Responses	24
Schedule of Federal Awards	28

dwg, inc. Certified Public Accountant and Consultant

Independent Auditor's Report

To the City Council
City of Hugo, Oklahoma

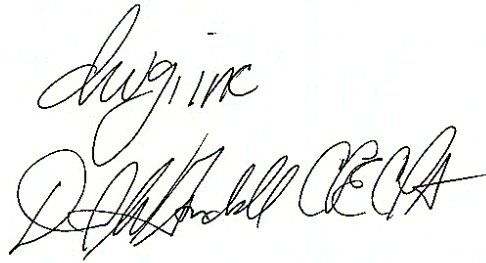
We have audited the accompanying financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Hugo, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities and the aggregate remaining fund information of the City of Hugo, Oklahoma, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report April 27, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 read in conjunction with this report in considering the results of our audit.

Management has elected to not present a management, discussion and analysis or a budget to actual comparison as is required by generally accepted accounting principles in the United States of America.

Handwritten signature of David W. Gandall, CFE, CPA. The signature is written in black ink and includes the initials 'dwg, inc' above the main signature.

dwg, inc.
David W. Gandall, CFE, CPA
April 27, 2012

City of Hugo
Statement of Net Assets
As of June 30, 2011

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and investments	\$475,403	\$829,494	\$1,304,897
Cash and investments - restricted	1,516,609	666,424	2,183,033
Accounts receivable	0	465,852	465,852
Allowance for doubtful accounts			
Net accounts receivable	0	465,852	465,852
Taxes receivable	299,137	78,759	377,896
Other assets	37,346		37,346
Total current assets	2,328,495	2,040,529	4,369,024
Capital Assets			
Non-depreciable capital assets			
Depreciable capital assets	4,677,259	21,884,645	26,561,904
Accumulated depreciation	(1,714,924)	(5,038,940)	(6,753,864)
Net capital assets	2,962,335	16,845,705	19,808,040
TOTAL ASSETS	5,290,830	18,886,234	24,177,064
LIABILITIES			
Current Liabilities			
Accounts payable	177,701	89,349	267,050
Due to other funds	116,105	0	116,105
Accrued liabilities	19,002	8,292	27,294
Current portion of long-term debt	177,425	192,840	370,265
Total current liabilities	490,233	290,481	780,714
Noncurrent Liabilities			
Meter deposits refundable		239,393	239,393
Long-term debt, less current portion	2,387,214	7,675,629	10,062,843
Total noncurrent liabilities	2,387,214	7,915,022	10,302,236
TOTAL LIABILITIES	2,877,447	8,205,503	11,082,950
NET ASSETS			
Invested in capital assets, net of debt	397,696	8,977,236	9,374,925
Restricted for:			
Debt service	1,118,913	666,424	1,785,337
Unrestricted	896,779	1,037,073	1,933,852
TOTAL NET ASSETS	\$2,413,388	\$10,680,733	\$13,094,114

City of Hugo
Statement of Activities
For the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total Activities
Governmental activities:							
General government	(\$431,879)	\$159,173		\$216,383	(\$56,323)		(\$56,323)
Streets	(592,646)			25,554	(567,092)		(567,092)
Parks & recreation	(258,442)				(258,442)		(258,442)
Police and court	(1,122,109)	108,406		3,997	(1,009,706)		(1,009,706)
Fire	(782,219)			30,179	(752,040)		(752,040)
Cemetery	(126,266)	13,036			(113,230)		(113,230)
Nutrition program	(34,443)				(34,443)		(34,443)
Garage	(38,948)				(38,948)		(38,948)
Total governmental activities:	(3,386,952)	280,615		276,113	(2,830,224)		(2,830,224)
Business-type activities:							0
Water	(1,718,105)	1,413,977				(304,128)	(304,128)
Sewer	(788,339)	419,123				(369,216)	(369,216)
Trash	(171,685)	407,701				236,016	236,016
Airport	(247,555)	192,751				(54,804)	(54,804)
Industrial Authority	(9,569)	10,975				1,406	1,406
Other fees and charges	(56,107)	252,914				196,807	196,807
Total business-type activities:	(2,991,360)	2,697,441		0		(293,919)	(293,919)
Total all activities:	(\$6,378,312)	\$2,978,056		\$276,113	(\$2,830,224)	(\$293,919)	(\$3,124,143)
Interest expensed in:							
General government	74,477						
Streets	44,465						
Water	212,645						
Sewer	116,060						
Airport	10,542						
Total	383,712						
				General revenues:			
				Sales and use taxes	2,353,046	822,787	3,175,833
				Franchise taxes	190,186	6,459	196,645
				Other income (loss)	213,508		213,508
				Transfers	1,310,638	(1,310,638)	0
				Total general revenues and transfers	4,067,378	(481,392)	3,585,986
				Change in net assets	1,237,156	(775,311)	461,843
				Beginning net assets	1,208,893	11,462,043	12,670,936
				Prior period adjustments	(32,661)	(6,000)	(38,661)
				Ending net assets	\$2,413,388	\$10,680,732	\$13,094,120

**City of Hugo
Balance Sheet
Governmental Funds
As of June 30, 2011**

	Major Funds				Total Governmental Funds
	General	Street and Alley	Mount Olive Cemetery	Non-Major	
ASSETS					
Cash and investments	\$286,779	\$14,706	103,934	\$69,984	\$475,403
Cash and investments - restricted	1,111,332		390,230	15,047	1,516,609
Accounts receivable					0
Taxes receivable	299,137				299,137
Grants receivable					
Due from other funds		37,346			37,346
TOTAL ASSETS	1,697,248	52,051	494,164	85,031	2,328,495
LIABILITIES					
Accounts payable	177,701	0			177,701
Accrued interest	11,460	7,542			19,002
Due to other funds	116,105	0	0	0	116,105
TOTAL LIABILITIES	305,266	7,542	0	0	312,808
FUND BALANCES					
Unreserved	1,391,982	44,511	494,164	85,031	2,015,687
TOTAL FUND BALANCES	1,391,982	44,511	494,164	85,031	2,015,687
TOTAL LIABILITIES AND FUND BALANCES	\$1,697,248	\$52,053	\$494,164	\$85,031	\$2,328,495

Reconciliation of general fund balance to net assets of governmental activities:

	Fund balance	2,015,687
	Capital assets	4,677,259
	Accumulated depreciation	(1,714,924)
	Debt	(2,564,639)
Net assets of governmental activities		2,413,383

City of Hugo
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year ended June 30, 2011

	Major Funds				Total Governmental Funds
	General	Street and Alley	Mount Olive Cemetery	Non-Major	
REVENUES					
Taxes	\$ 2,080,560	\$ 462,672	\$ -	\$ -	\$ 2,543,232
Licenses & permits	36,559				36,559
Fines & forfeitures	64,775			43,631	108,406
Sales and services	122,614		13,036		135,650
Federal and state grants	216,383	25,554		34,176	276,113
Other revenues	149,139	6,151		54,990	210,280
Interest	3,071	66		91	3,228
Capital financing	251,773	0			251,773
TOTAL REVENUES	2,924,874	494,443	13,036	132,888	3,565,241
EXPENDITURES					
General government	357,402				357,402
Streets		492,024			492,024
Parks & recreation	219,264				219,264
Police and court	1,046,367			50,081	1,096,448
Fire	714,962			23,367	738,329
Cemetery	118,223		3,713		121,936
Nutrition program	34,443				34,443
Garage	38,948				38,948
Debt service	79,206	61,683			140,889
Interest expense	74,477	44,465			118,942
Capital outlay	307,280	800,609			1,107,889
Other expense		742		6,814	7,556
TOTAL EXPENDITURES	2,990,572	1,399,523	3,713	80,262	4,474,070
REVENUES OVER (UNDER) EXPENDITURES	(65,698)	(905,080)	9,323	52,626	(908,829)
OTHER FINANCING SOURCES (USES)					
Transfers-in (out)	784,700	523,048	(9,863)	12,755	1,310,640
TOTAL OTHER FINANCING SOURCES (USES)	784,700	523,048	(9,863)	12,755	1,310,640
NET CHANGE IN FUND BALANCE	719,002	(382,032)	(540)	65,381	401,811
BEGINNING FUND BALANCE	672,980	426,543	494,704	19,650	1,613,877
ENDING FUND BALANCE	\$ 1,391,982	\$ 44,511	\$ 494,164	\$ 85,031	\$ 2,015,685

Reconciliation of the net change in fund balance to the change in net assets of governmental activities:

Net change in fund balance	401,811
Principal payments	140,889
Capital asset purchases capitalized	1,107,889
Funds borrowed recorded as revenue in the fund financial statements but recorded as long term liability in the government wide financial statements	(251,773)
Depreciation expense	(161,661)
Change in net assets of governmental activities	1,237,156

**City of Hugo
Statement of Net Assets
Proprietary Funds
As of June 30, 2011**

ASSETS	
Current Assets	
Unrestricted cash and cash equivalents	\$829,494
Utility billing receivables	465,852
Due from other funds	78,759
Restricted assets	
Cash and cash equivalents	666,424
Total current assets	<u>2,040,529</u>
Noncurrent Assets	
Depreciable capital assets	21,884,645
Accumulated depreciation	<u>(5,038,940)</u>
Net capital assets	<u>16,845,705</u>
TOTAL ASSETS	18,886,234
 LIABILITIES	
Current Liabilities	
Accounts payable	89,349
Due to other funds	
Accrued interest	8,292
Current portion of long-term debt	192,840
Total current liabilities	<u>290,481</u>
Noncurrent liabilities	
Meter deposits refundable	239,393
Long-term debt, less current portion	7,675,629
Total noncurrent liabilities	<u>7,915,022</u>
TOTA LIABILITIES	8,205,503
 NET ASSETS	
Invested in capital assets, net of debt	8,977,236
Restricted for:	
Debt service	666,424
Unrestricted	1,037,073
TOTAL NET ASSETS	<u><u>\$10,680,731</u></u>

City of Hugo
Statement of Revenues, Expenses and Changes in Assets
Proprietary Funds
For the Year ended June 30, 2011

OPERATING REVENUES	
Water revenue	\$ 1,413,977
Sewer revenue	419,123
Trash revenue	407,701
Industrial Authority revenue	10,975
Airport revenue	192,751
Sales tax revenue	822,787
Interest revenue	6,459
Other fees and charges	122,388
Capital improvement charges	<u>130,526</u>
TOTAL OPERATING REVENUES	3,526,687
OPERATING EXPENSES	
Water	1,171,086
Sewer	408,596
Trash	171,685
Airport	211,624
Industrial Authority	2,091
Interest expense	339,247
Other expense	<u>56,107</u>
TOTAL OPERATING EXPENSES	2,360,436
OPERATING INCOME (LOSS)	1,166,251
OTHER INCOME (EXPENSE)	
Depreciation expense	<u>(630,924)</u>
TOTAL OTHER INCOME (EXPENSE)	(630,924)
INCOME BEFORE TRANSFERS	535,327
TRANSFERS (OUT)	<u>(1,310,638)</u>
NET INCOME	(775,311)
BEGINNING NET ASSETS	11,462,043
Prior period adjustments	<u>(6,000)</u>
ENDING NET ASSETS	<u><u>\$10,680,732</u></u>

City of Hugo
Statement of Cash Flows
Proprietary Fund
For the year ended June 30, 2011

Cash flows from operations:	
Customers	\$2,371,563
Tax collections	859,762
Other fees and charges	252,914
Interest	6,459
Cash payments for:	
Salaries	(832,109)
Goods and services	(1,083,856)
Interest paid on long term debt	(339,247)
Net cash provided from operations	<u>1,235,486</u>
Cash flows from capital financing activities:	
Loan proceeds	1,040,000
Capital grants	0
Capital expenditures	(859,902)
Long Term Debt Paid	(181,590)
Net cash from capital financing activities	<u>(1,492)</u>
Interfund transfers	<u>(1,310,638)</u>
Net cash from non-capital financing	<u>(1,310,638)</u>
Net increase (decrease) in cash	(76,644)
Beginning cash	<u>1,094,572</u>
Ending cash	<u><u>\$1,017,928</u></u>
Reconciliation of income from operations	
to net cash from operations:	
Operating income (loss)	\$535,327
Adjustments to income from operations:	
Depreciation and amortization	630,924
Change in assets and liabilities:	
(Increase) decrease in receivables	(35,989)
(Increase) decrease in due from other funds	84,612
Increase (decrease) in payables	34,288
Accrued expenses	(38,369)
Increase (decrease) in refundable deposits	24,693
Net cash provided by operations	<u><u>\$1,235,486</u></u>
Restricted cash in certificates of deposit	192,804
Restricted cash in trust accounts	<u>285,186</u>
Total restricted non current cash	<u>477,990</u>
Operating Cash	<u>1,017,928</u>
Total cash and cash equivalents	<u><u>\$1,495,918</u></u>

The accompanying notes are an integral part of these financial statements

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

1. Summary of Significant Accounting Policies

GASB 34

During the year ending June 30, 2004, the City implemented a new financial statement reporting model, this model as required by the Governmental Accounting Standards Board. This new reporting model makes substantial changes in the presentation of the financial statements over the previous model.

Financial Reporting Entity

The City of Hugo, Oklahoma is a statutory town Government under Oklahoma Statutes. The City provides the following services: public safety, municipal court, parks and recreation, cemetery, nutrition program, street and alley, sanitation department, and water and sewer construction.

The criteria used to determine which accounting entities, agencies, commissions, boards and authorities are part of the City's operations include how the budget is adopted, whether debt is secured by general obligation of the City, the City's duty to cover any deficits that may occur, and supervision over the accounting functions. Any separate accounting entities would be considered component units. There are no agencies, organizations or activities meeting any of the above criteria that are excluded from the City's reporting entity. As of June 30, 2011, the City had three component units: Hugo Municipal Authority, Hugo Airport Authority and Industrial Trust Authority.

Basis of Presentation-Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The City's funds are grouped into four governmental fund types: general, street and alley, cemetery and special revenue funds. Proprietary funds include enterprise funds and Industrial Trust Authority. As of June 30, 2011, the City had governmental funds of general, street and alley, cemetery, general fixed assets, police, and fire funds. The proprietary funds consisted of the Hugo Municipal Authority, Hugo Airport Authority and Industrial Trust Authority.

Basis of Accounting

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect and program revenues for each segment of the business-type activities of the City and for each governmental program. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

FUND FINANCIAL STATEMENTS

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

GOVERNMENTAL FUNDS

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). This includes investment earnings, income taxes withheld by employers, estate taxes, fines and forfeitures and state-levied locally shared taxes (including motor vehicle fees). Reimbursement due for federally funded projects is accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for services and miscellaneous income are recorded as revenue when received in cash because they are generally not measurable until actually received.

Expenditure Recognition

The measurement focus of governmental fund accounting is on decrease in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

PROPRIETARY FUNDS

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocation of costs, such as depreciation, is recorded in proprietary funds. The proprietary funds use standards issued by the Financial Accounting Standard Board whenever possible, if no FASB pronouncement is applicable then Government Accounting Standards Board pronouncements are used.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less for the date of acquisition. Restricted cash consists of meter deposits.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances are not recognized as the equivalent of expenditures; therefore, the reserve for encumbrances is reported as part of the fund balance on the balance sheet. However, it should be noted that the City did not recognize any outstanding reserves as of June 30, 2011.

Budget

In accordance with Oklahoma Statutes, Title 68, Section 2483, the City Council formally adopts annual budgets which include substantially all funds. These annual budgets are adopted on a basis consistent with the guidelines established by the Oklahoma Municipal Code.

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

Risk Management

Significant losses are covered by commercial insurance for all City operations.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Property, Plant and Equipment

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, such as roads, sidewalks, and bridges are not capitalized. Property, plant, and equipment acquired or constructed for general governmental operations are recorded as expenditures in the fund making the expenditure, and capitalized at cost in the General Fixed Assets Account Group. However, as previously reported, detail fixed asset records have not been maintained. The amount reported for property and equipment represents acquisitions only. Disposals have not been recorded.

Property, plant and equipment acquired for proprietary funds are capitalized at cost and depreciated over their estimated useful lives using the straight-line method of depreciation. However, as previously reported, detail fixed asset records have not been maintained. The amount reported for property and equipment represents acquisitions only. Disposals have not been recorded. Estimated useful lives have been estimated as follows:

	Buildings Machinery & equipment	25 - 50 years 3 - 20 years		
<u>Governmental Funds</u>	Balance June 30, 2010	Additions	Deletions	Balance June 30, 2011
Land	4,000			4,000
City Hall	508,300			508,300
Fire Department	717,220		(4,087)	713,133
Police Department	298,316		(63,200)	235,116
	1,399,127	843,570		2,242,697
Street Department				
Mt. Olive Cemetery	147,584		(43,786)	103,798
Park and Recreation	612,656	257,558		870,214
Total	3,687,203	1,101,128	(111,073)	4,677,258
				0
Accumulated Depreciation	(1,638,434)	(161,661)	85,173	(1,714,922)
Net Assets	2,048,769			2,962,334

As of June 30, 2011 the governmental funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded amounts were not available. Depreciation of \$161,661 for the governmental funds was recorded for the following: Fire Department \$40,930; Police Department \$21,807; Street and Alley \$54,415; Mt. Olivet Cemetery \$4,330 and Parks \$39,178.

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

Proprietary Funds

	Balance	Additions	Deletions	Balance
	June 30, 2010			June 30, 2011
Municipal Authority	15,853		(8,500)	7,353
Sewer & Water	9,916,246			9,916,246
Water Storage	9,437,023	811,825		10,248,848
Water Plant	442,839		(2,440)	440,399
Industrial Authority	211,690	44,810		256,500
Airport Authority	1,009,562	5,738		1,015,299
Construction in Progress	0			0
Total	21,033,212	862,373	(10,940)	21,884,645
				0
Accumulated Depreciation	(4,410,486)	(639,394)	10,940	(5,038,940)
Net Assets	16,622,726			16,845,705

As of June 30, 2011 the proprietary funds had no capitalized assets that were not being depreciated or had not been depreciated. Depreciation is computed using the straight line method of depreciation over the estimated useful lives of the assets. Assets are recorded at cost or their estimated fair market value for those assets where recorded amounts were not available. Depreciation of \$639,394 for the proprietary funds was recorded for the following: Industrial Authority \$7,478; Water Department \$334,374; Sewer Department \$263,683; and Airport \$25,389.

Accounts Payable

The City is responsible for outstanding obligations to vendors and others for operating materials, services or other charges.

Long-term Debt

Long-term debt to be repaid from governmental funds is recorded in the general long-term debt account group. Long-term debt to be repaid from proprietary funds is recorded in the fund. The current portion of long-term debt to be repaid within one year is recorded in the fund.

2. Cash and Investments

Deposits and investments made by the City are summarized below. The deposits are classified as to credit risk within the following three categories:

- Category 1 Insured or collateralized, with securities held by the City or its agent in the City's name.
- Category 2 Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3 Uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent, but not in the City's name).

For the year ending June 30, 2011, the City and its component units had category one deposits up to the FDIC insurance limits. The remaining account balances for the City and its component units were category three. The City's financial institution had pledged \$1,500,000 of securities for the City's accounts. These securities were held in the financial institution's name with a third party correspondent.

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

Long-term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2011:

The City entered into a no interest loan agreement with Choctaw Electric Cooperative to renovate the rodeo arena in 2011. Cash reserves are required for the bonds and certain notes. For the year just ended, the City complied with these requirements. The debt summary also includes the contingent obligation due to the US Army Corp of Engineers, see footnote 8. The summary of debt service requirements to maturity by year is as follows:

Governmental Funds

	<u>Capital Leases</u>	<u>Revenue Notes</u>
Debt outstanding, beginning of year	53,755	2,400,000
New debt issued	54,222	197,551
Retirements and repayments	<u>(20,889)</u>	<u>(120,000)</u>
Debt outstanding, end of year	87,088	2,477,551

Proprietary Funds

The Hugo Municipal Authority (HMA) had the following long term debt obligations outstanding as of June 30, 2011:

Proprietary Funds

Debt outstanding, beginning of year	7,010,058
New debt issued	1,040,000
Retirements and repayments	<u>(181,589)</u>
Debt outstanding, end of year	7,868,469

Notes Payable

The Army Corp of Engineers note payable carries an interest rate of 3.225% with annual payments of \$5,032. The collateral for this obligation is the water supply of the system. Principal and interest required to repay this obligation is as follows:

Balance 6/30/10	52,731
Additions	0
Principal payments	<u>(3,331)</u>
Balance 6/30/11	<u>49,400</u>

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	1,593	3,439	45,931
2013	1,482	3,550	42,411
2014	1,368	3,664	38,747
2015	1,250	3,782	34,965
2016	1,128	3,904	31,060
2017-2022	3,974	31,060	0

The Rural Development 92-01 note payable carries an interest rate of 4.5% with monthly payments of \$4,653. The collateral for this obligation is the revenue of the system and sales taxes. Principal and interest required to repay this obligation is as follows:

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

Balance 6/30/10	Additions	Principal Payments	Balance 06/30/11
887,271		16,241	871,030

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	38,849	16,987	854,042
2013	38,068	17,768	836,275
2014	37,252	18,584	817,691
2015	36,398	19,438	798,253
2016	35,506	20,331	777,923
2017-2021	162,629	116,551	661,372
2022-2026	133,283	145,897	515,475
2027-2031	96,546	182,634	332,841
2032-2036	50,560	228,620	104,221
2037-2038	4,837	104,221	0

The Rural Development 92-03 note payable carries an interest rate of 4.50% with monthly payments of \$4,769. The collateral for this obligation is the revenue of the system and sales taxes. Principal and interest required to repay this obligation is as follows:

Balance 6/30/10	Additions	Principal Payments	Balance 06/30/11
389,068		40,550	348,518

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	14,816	42,412	306,106
2013	12,867	44,361	267,745
2014	10,829	46,399	215,347
2015	8,698	48,530	166,816
2016	6,468	50,760	116,057
2017-2019	5,862	116,057	0

The Rural Development Phase II note payable is a 2006 note in the amount of \$1,500,000, which carries an interest rate of 4.250% with monthly payments of \$6,645. The collateral for this obligation is new construction on the sewer/water system. Principal and interest required to repay this obligation is as follows:

Rural Development Note 92-07 Phase II

Balance 6/30/10	Additions	Principal Payments	Balance 06/30/11
1,415,813		19,954	1,395,860

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

Future Debt Service

	Interest	Principal	Balance
2012	58,922	20,818	1,375,041
2013	58,019	21,721	1,353,321
2014	57,078	22,662	1,330,659
2015	56,096	23,644	1,307,015
2016	55,071	24,669	1,282,346
2017-2021	258,363	140,337	1,142,009
2022-2026	232,476	166,224	968,510
2027-2031	225,201	173,499	754,013
2032-2036	133,517	265,183	488,829
2037-2041	70,853	327,847	160,983
2042-2044	7,320	160,983	0

The Rural Development Phase III was entered into to finance construction for a water treatment plant. The construction was completed during this fiscal year. This project consisted of two notes. Principal and interest payments were made as follows:

Rural Development Note 91-09 Phase III

Balance	Additions	Principal Payments	Balance
6/30/10			06/30/11
1,810,232		21,698	1,788,534

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	77,791	22,667	1,765,867
2013	76,786	23,678	1,742,189
2014	75,729	24,735	1,717,453
2015	74,625	25,839	1,691,614
2016	73,471	26,993	1,664,621
2017-2021	348,170	154,151	1,510,470
2022-2026	310,553	191,771	1,318,703
2027-2031	260,757	238,563	1,080,140
2032-2036	205,542	296,778	783,362
2037-2041	133,120	369,170	414,162
2042-2046	43,366	414,162	0

Rural Development Note 91-11 Phase III

Balance	Additions	Principal Payments	Balance
6/30/10			06/30/11
2,275,344		26,219	2,249,125

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	97,854	27,390	2,221,735
2013	96,322	28,612	2,193,123
2014	95,354	29,890	2,163,233
2015	94,020	31,224	2,132,010
2016	92,627	32,617	2,099,392
2017-2021	439,949	186,271	1,913,121
2022-2026	394,494	231,726	1,681,395
2027-2031	337,947	288,273	1,393,122
2032-2036	267,601	359,619	1,034,503
2037-2041	180,089	446,131	588,372
2042-2047	71,474	588,372	0

The City issued \$2,505,000 in revenue notes in May 2009. The notes are to be paid with sales tax proceeds with the monthly remittances to be deposited in a trustee bank. The trustee bank makes two payments per year, May and November. The notes carry a 5% interest rate. Debt service is as follows:

Security First National Note - Parks
 General Fund

Balance	Additions	Principal Payments	Balance
06/30/10			06/30/11
1,445,000		70,000	1,375,000

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	67,750	80,000	1,295,000
2013	63,750	80,000	1,215,000
2014	59,750	85,000	1,130,000
2015	55,214	90,000	1,040,000
2016	50,875	95,000	945,000
2017-2021	176,625	555,000	390,000
2022-2024	34,125	390,000	0

BancFirst Note – Streets
 General Fund

Balance	Additions	Principal Payments	Balance
06/30/10			06/30/11
955,000		50,000	905,000
	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	44,625	50,000	855,000
2013	42,125	55,000	800,000
2014	39,250	55,000	745,000
2015	36,500	60,000	685,000
2016	33,500	60,000	625,000

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

2017-2021	117,875	355,000	270,000
2022-2024	24,375	270,000	0

The Hugo Municipal Authority issued an additional \$1,040,000 in revenue notes during 2011. The notes are to be paid with the sales tax revenues allocated to the Municipal Authority with the remittances to be deposited with a trustee bank. The trustee bank makes two payments per year. The note carries a 5% interest rate and the debt service is as follows:

Security First National Note – Hugo Municipal Authority

Balance 6/30/10	Additions	Principal Payments	Balance 06/30/11
0	1,040,000	45,000	995,000

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	49,125	50,000	945,000
2013	46,625	55,000	890,000
2014	43,875	55,000	835,000
2015	41,000	60,000	775,000
2016	38,000	60,000	715,000
2017-2021	140,125	360,000	355,000
2022-2025	41,000	355,000	0

The Hugo Municipal Authority entered into a commercial mortgage agreement in the amount of \$189,000 at 6% interest with First United Bank and Trust Company during 2009. The term of the loan is 15 years with monthly payments of \$1,594.89. The loan assigns revenue and the property at the airport as collateral for the mortgage.

First United Bank – Hugo Municipal Authority – Airport Mortgage

Balance 6/30/10	Additions	Principal Payments	Balance 06/30/11
179,600		8,597	171,003

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	10,012	9,127	161,877
2013	9,449	9,690	152,187
2014	8,951	10,287	141,900
2015	8,217	10,922	130,978
2016	7,543	11,595	119,382
2017-2021	26,064	69,629	49,753
2022-2024	4,473	49,753	0

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

The City entered into a no interest loan agreement with the Choctaw Electric Cooperative. This agreement was approved by the Rural Business and Cooperative Development Service of the United States Department of Agriculture. The proceeds were used to renovate the rodeo arena and agri-plex. A summary of the year's debt activity and future debt service is listed below:

Choctaw Electric Note - Rodeo Arena - General Fund

Balance	Additions	Principal Payments	Balance
06/30/10			06/30/11
0	197,551	0	197,551

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	0	22,224	175,327
2013	0	22,224	153,103
2014	0	22,224	130,879
2015	0	22,224	108,655
2016	0	22,224	86,431
2017-2020	0	86,431	0

The City has two governmental capital leases with Caterpillar Financial. These were used to obtain heavy equipment necessary to maintain the streets of the city. One of the leases had been entered into subsequent years, and a new lease was entered into during the current year to obtain a Caterpillar Wheel Loader. As summary of the lease activity is as follows:

Caterpillar Capital Lease

Balance	Additions	Principal Payments	Balance
6/30/10			06/30/11
53,755		11,683	42,072

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	1,571	12,195	29,876
2013	1,036	12,730	17,146
2014	477	13,289	3,858
2015	29	3,858	0

Caterpillar Capital Lease - Wheel Loader

Balance	Additions	Principal Payments	Balance
6/30/10			06/30/11
0	54,222	9,206	45,017

Future Debt Service

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2012	2,126	13,006	32,010
2013	1,392	13,740	18,271
2014	617	14,515	3,756
2015	28	3,756	0

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

3. Defined Benefit Pension Plans

The City participates in three employee pension systems as follows:

Oklahoma Firefighters Pension and Retirement System

Plan Description: The City contributes to the Oklahoma Firefighters Pension and Retirement System (the System). A cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 ET. seq. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105, or by calling 1-800-525-7461.

Funding Policy: Paid firefighters are required to contribute 8% of covered payroll with the City contributing 13% of covered payroll. Volunteer firefighters are not required to contribute, but the City is required to contribute \$60 per volunteer per year. The contribution requirements of the System are an established rate determined by Oklahoma Statute and are not based on actuarial calculations. The City's contribution to the System for the year ended June 30, 2011 was \$61,451.77, equal to the required contribution for each year.

Oklahoma Pension and Retirement System

Plan Description: The City contributes to the Oklahoma Police Pension and Retirement System (the System). A cost-sharing multiple-employer defined benefit pension plan administered by a member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The System is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 1001 NW 63rd, Suite 305, Oklahoma City, OK 73116.

Funding Policy: Paid police are required to contribute 8% of covered payroll with the City contributing 13% of covered payroll. The contribution requirements of the System are an established rate determined by Oklahoma Statute and are not based on actuarial calculations. The City's contribution to the System for the year ended June 30, 2011 was \$42,533.87, equal to the required contribution for each year.

Oklahoma Public Employee's Retirement System

Plan Description: The City contributes to the Oklahoma Public Employee's Retirement System (the System). A cost-sharing multiple-employer defined benefit pension plan administered by a 13-member board which acts as fiduciary for investment of funds and the application of plan interpretations. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The System is a component unit of the State of Oklahoma and is authorized under Title 11, Oklahoma Statutes 1981, sections 48-101 et. seq. The System issues a publicly available financial report that includes financial statements and required supplementary information for the plan and may be obtained from their offices at 3545 NW 58th St., Suite 110, Oklahoma City, OK 73112, or by calling 1-800-543-6044.

Funding Policy: Employees are required to contribute 3.5% of covered payroll with the City contributing 10% of covered payroll. The contribution requirements of the System are an established rate determined by Oklahoma Statute and are not based on actuarial calculations. The City's contribution to the System for the year ended June 30, 2011 was \$155,435.57. 100% of required contributions for 2011 have been paid.

4. Risk Management

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2011

claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There was no claims activity for the year just ended.

5. Commitments and Contingencies

The HMA entered into a contract with the US Army Corps of Engineers to secure water storage capacity at the Hugo Lake, with a portion of this contract relating to future water usage and storage capacity. Under this contract, the \$1,082,390 cost of the future storage capacity has been deferred as a 100 year note with a maturity date of January 1, 2024. Although the Corps is accruing and compounding interest on this note at 3.225%, the HMA is obligated only for actual usage from the future capacity allotment. It is improbable that this future capacity allotment will ever be used.

6. Subsequent Events

During 2009, the City adopted FASB ASC 855-10-50, formerly SFAS No. 165, *Subsequent Events*, which is effective for periods ending after June 15, 2009. The new standard reflects the existing principles of current subsequent event accounting guidance and requires disclosure of the date through which the subsequent events have been evaluated. Management performed an evaluation of the City's activity through April 27, 2012, the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date

7. Prior Period Adjustments

Management instituted a process to eliminate obsolete fixed assets from the fixed asset schedule. This process identified several items that had previously been physically removed due to obsolescence or damaged beyond repair. The effect reduced the Municipal Authority Net Assets by \$6,000 and the General Government Net Assets by \$32,661.

dwg, inc. Certified Public Accountant and Consultant

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

The City Council,
The City of Hugo

We have audited the 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 Hugo, Oklahoma, as of and for the year ended June 30, 2011 which collectively comprise the City of Hugo, Oklahoma's basic financial statements and have issued our report thereon dated April 27, 2012. 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 Over Financial Reporting

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses as items to be significant deficiencies.

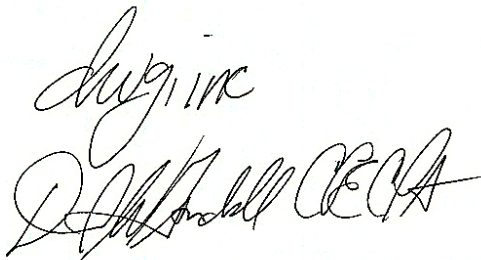
Compliance and Other Matters

As part of obtaining reasonable assurance about whether The City of Hugo's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

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

This report is intended solely for the information and use of management, the city council and others within the City of Hugo, Oklahoma, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

The image shows two handwritten signatures in black ink. The top signature is 'dwg, inc' and the bottom signature is 'David W. Gandall CFE, CPA'. Both are written in a cursive, flowing style.

dwg, inc.
David W. Gandall, CFE, CPA
April 27, 2012

Schedule of Previous Findings

2009-1

Criteria

62 OS 2001, Section 517.3 defines public deposit requirements of treasurers of public entities. The statute states that the treasurer of every public entity shall deposit daily, not later than the immediately next banking day, all funds and monies of whatsoever kind that shall come into the possession of the treasurer by virtue of the office.

Condition

As a result of our revenue tests, it was discovered that traffic court fines and fees were not deposited with the city treasurer on a daily basis. Out of the 12 months tested, deposits were made no more than twice per month. There were not any deposits made in May 2010.

Update to previous findings

Since the previous audit dated May 13, 2011, the current year's transactions had been recorded for the majority of the year. Our tests did show an increased frequency of deposits after the previous audit presentation. During the fiscal year ending June 30, 2012, additional changes have been made and the court clerk's office is now in compliance with Oklahoma law concerning daily deposits.

Cause

The court clerk does not put together a daily deposit.
Court clerk is now in compliance

Effect

The city treasurer is now in compliance with state law.

Recommendation

Management should require that the court clerk make daily deposits with the city treasurer. Management has implemented this recommendation and it is currently executed daily.

Management Response

The court clerk has been instructed to prepare a daily deposit with the city treasurer.

Schedule of Findings

2011-1

Criteria

The City Council and the management of the City are responsible for compliance with the requirements of the various grantor agencies that provide the City with additional funds to enhance or improve the lives of its citizens.

Condition

The City Council and management have accepted grant funds from grantor agencies and governments for capital projects that enhance and improve the lives of its citizens. The City Council and management have not informed the city treasurer in a timely manner of the origin of these funds, and the funds have not been segregated or identified in the financial statements.

Effect

The City has received and expended funds from grantor agencies and governments, and while in compliance with the project management standards, have not properly identified the source of these funds in the financial statements. When these grant funds are received from the United States Government, the financial reporting standards require that a separate schedule of Federal Awards be maintained and identified in the government financial statements. This lack of accounting places the City in a state of non-compliance with the grant compliance standards.

Recommendation

The City Council should require that management assist and instruct the treasurer to maintain a current schedule of grant funds applied for, accepted and received by all departments. Department heads should be instructed to assist the city treasurer in maintaining this schedule.

Management's Response.

The council and management will adopt the auditor's recommendations

2011-2

Criteria

The City Council and management are responsible for safeguarding the assets of the City.

Condition

The fixed asset schedule is not maintained in a contemporaneous manner. Assets are added by various departments and are not specifically added to a central inventory or schedule, i.e. make, model, serial or other identifying number.

Effect

The fixed asset schedule is incomplete or vague in the description of the assets. The fixed asset schedule is found incomplete and assets are added only after inquiries are made concerning large expenditures.

Recommendation

Management should be instructed to enhance current fixed asset schedule with detailed descriptions and identifying numbers. Department heads should report to management any additions or significant betterments with cost, detailed description serial numbers

Management's Response

The council and management will adopt the auditor's recommendation.

2011-3

Criteria

Oklahoma statute requires city treasurers to report unclaimed intangible property to include, but not be limited to:

1. Outstanding treasury checks, vouchers or warrants that have remained outstanding and unclaimed for a period of one year or more.

Condition

The city has twenty-eight outstanding checks that are outstanding and unclaimed for periods exceeding one year.

Effect

The city is not in compliance with Oklahoma law.

Recommendation

Management should be instructed to complete the unclaimed property reporting and remittance procedure in accordance with Oklahoma Statute.

Management's Response

The council and management will adopt the auditor's recommendation.

The City of Hugo
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2011

Federal Grantor <i>Pass-Through Grantor</i> Program Title	Project Description	Federal CFDA Number	Revenues	Expenditures
United States Department of Energy Stimulus Energy Efficiency Community Block Grant <i>Passed through Oklahoma Department of Commerce</i>	Renovation of Boys and Girls Club Building	ARRA 81.128	250,000	250,000
Total Federal Awards			<u>\$ 250,000</u>	<u>\$ 250,000</u>
Local matching funds per contract			288,713	288,713
Total project expenditures			<u>538,713</u>	<u>538,713</u>