

**HOUSING AUTHORITY OF THE CITY OF HUGO**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION WITH  
INDEPENDENT AUDITORS' REPORTS**

Years Ended December 31, 2011 and 2010

# HOUSING AUTHORITY OF THE CITY OF HUGO

## TABLE OF CONTENTS

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	<u>Page</u>
<b>Management's Discussion and Analysis</b>	1-5
<b>Independent Auditors' Report</b>	6-7
<b>Financial Statements:</b>	
Statements of Net Assets	8
Statements of Revenues, Expenses and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to Financial Statements	11-17
<b>Supplementary Information:</b>	
Schedule of Expenditures of Federal Awards	18
Notes to Schedule of Expenditures of Federal Awards	19
Financial Data Schedule	20-23
Independent Auditors' Report on Other Supplementary Information	24
Statement and Certification of Actual Modernization Cost Certificate Project Number OK56P04450109	25
<b>Other Reports and Schedules in Accordance with Government Auditing Standards and OMB Circular A-133:</b>	
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	26-27
Independent Auditors' 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	28-29
Schedule of Findings and Questioned Costs	30-31
Corrective Action Plan (Unaudited)	32
Schedule of Prior Year Findings	33

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE HOUSING AUTHORITY OF THE CITY OF HUGO (the "Authority") FINANCIAL STATEMENTS**

Our discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the year ended December 31, 2011. Please read it in conjunction with the Authority's financial statements.

### **FINANCIAL HIGHLIGHTS**

- The Authority's net assets decreased by \$45,693 or 1% during the year ended December 31, 2011, from \$3,793,815 at December 31, 2010 to \$3,748,122 at December 31, 2011.
- Total operating revenues decreased by \$8,444 or 3% for the year ended December 31, 2011, from \$335,020 for the year ended December 31, 2010 to \$326,576 for the year ended December 31, 2011.
- Total operating expenses of the Authority increased by \$66,656 or 5% for the year ended December 31, 2011, from \$1,361,025 for the year ended December 31, 2010 to \$1,427,881 for the year ended December 31, 2011.
- Total non-operating revenue (expense) increased by \$28,633 or 4% for the year ended December 31, 2011, from \$703,752 for the year ended December 31, 2010 to \$732,385 for the year ended December 31, 2011.

### **USING THIS ANNUAL REPORT**

The following summarizes the content of the Authority's financial statements and differs from previous presentations:

- Management's Discussion and Analysis
- Financial Statements, including the Statements of Net Assets on page eight, the Statements of Revenues, Expenses and Changes in Net Assets on page nine, and the Statements of Cash Flows on page ten.
- Notes to Financial Statements

The primary focus of the Authority's financial statements is on the Authority as a whole. This perspective allows the user to address relevant questions, broaden a basis for comparison and enhance the Authority's accountability.

## Entity Wide Financial Statements

The Authority engages in only business-type activities. The financial statements are designed to be corporate-like in that all business-type activities are consolidated to a total for the entire entity. The Authority's major business activities include the following:

- Rental of real estate under a low rent public housing contract and a rural rental housing contract.
- Provide rental assistance under Section 8 voucher contracts.
- Provision of tenant services funded from both low rent public housing contracts and grant funding.
- Modernization of low rent public housing property through use of Capital Fund Program grants including stimulus grants under the American Recovery and Reinvestment Act ("ARRA").

## Statements of Net Assets

The following table reflects the condensed Statement of Net Assets compared to prior year.

	<u>2011</u>	<u>2010</u>
Current assets	\$ 1,097,659	\$1,087,986
Capital assets	<u>3,066,533</u>	<u>3,135,195</u>
Total Assets	<u>\$ 4,164,192</u>	<u>\$4,223,181</u>
Current liabilities	\$ 103,582	\$ 97,922
Other liabilities	<u>312,488</u>	<u>331,444</u>
Total Liabilities	<u>\$ 416,070</u>	<u>\$ 429,366</u>
Net Assets		
Invested in capital assets, net of related debt	\$ 2,733,302	\$2,783,117
Restricted	209,634	218,116
Unrestricted	<u>805,186</u>	<u>792,582</u>
Total Net Assets	<u>\$ 3,748,122</u>	<u>\$3,793,815</u>

For more detailed information, see page eight for the Statements of Net Assets.

## Major Factors Affecting the Statement of Net Assets

Capital assets decreased during the year from \$3,135,195 to \$3,066,533. The decrease of \$68,662 is attributed to current year depreciation being higher than property and equipment additions.

## CHANGE IN UNRESTRICTED NET ASSETS

Unrestricted Net Assets at the beginning of the year	\$ 792,582
Change in Unrestricted Net Assets	<u>12,604</u>
Unrestricted Net Assets at the end of the year	<u>\$ 805,186</u>

While the results of operations are a significant measure of the Authority's activities, the analysis of the changes in Unrestricted Net Assets provides a clearer indication of the change in the Authority's financial wellbeing.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following schedule compares the revenues and expenses for the current and previous fiscal year. As stated before, the Authority engages in only business-type activities.

	<u>2011</u>	<u>2010</u>
Revenues		
Operating grants and subsidies	\$1,193,862	\$1,148,985
Capital grants	323,227	456,247
Tenant rental and other operating revenue	326,576	335,020
Investment income	<u>8,864</u>	<u>12,122</u>
Total Revenues	<u>\$1,852,529</u>	<u>\$1,952,374</u>

	<u>2011</u>	<u>2010</u>
Expenses		
Housing Assistance Payments	\$ 465,129	\$ 450,323
Administrative services	448,981	423,669
Depreciation	392,385	411,162
Maintenance	352,222	326,657
Insurance	75,334	83,118
Protective services	58,938	51,567
Utilities	53,514	41,851
Interest	5,212	7,032
Other	<u>46,507</u>	<u>23,001</u>
 Total Expenses	 <u>\$ 1,898,222</u>	 <u>\$1,818,380</u>
 Net Change in Net Assets	 <u>\$ (45,693)</u>	 <u>\$ 133,994</u>

## MAJOR FACTORS AFFECTING THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Operating grants and subsidies increased by \$44,877, primarily due to a decrease in rental voucher subsidies of \$27,745, an increase in low rent public housing revenue of \$113,878, and a decrease in capital fund soft cost revenue of \$42,288. During 2009 and 2010, the Authority engaged in increased modernization and rehabilitation efforts utilizing capital fund and ARRA grant funds. These efforts primarily consisted of the purchase and installation of new high-efficiency air conditioning units, and upgrading the electrical, plumbing and other supply lines. These projects concluded during 2011, explaining the decrease in capital grant revenue of \$133,020. Maintenance and utilities increased by the total of \$37,228 due to the replacement of 20 refrigerators in 2011 and due to repairs and associated utilities usage costs resulting from a water main break.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

As of year-end, the Authority had \$3,066,533 invested in a variety of capital assets as follows, which represents a net decrease of \$68,662 from the end of last year.

	<u>2011</u>	<u>2010</u>
Land	\$ 109,218	\$ 109,218
Buildings and improvements	12,690,169	12,380,148
Furniture and equipment	287,289	267,042
Construction in progress	<u>14,895</u>	<u>21,440</u>
 Total cost of assets	 13,101,571	 12,777,848
 Accumulated depreciation	 <u>10,035,038</u>	 <u>9,642,653</u>
 Net	 <u>\$ 3,066,533</u>	 <u>\$ 3,135,195</u>

The following summarizes the changes in capital assets:

### **CHANGE IN CAPITAL ASSETS**

Balance, beginning of year	\$3,135,195
Additions to capital assets	323,723
Depreciation	<u>(392,385)</u>
Balance, end of year	<u><u>\$3,066,533</u></u>

This year's major additions were primarily for capital improvements to low income housing under the Capital Fund Program and ARRA grants.

### **Debt Outstanding**

As of year-end, the Authority had \$333,231 in outstanding debt consisting of debt payable to the U.S. Department of Agriculture under a federal program, compared to \$352,078 last year. This represents a decrease of \$17,019 from the prior year. The decrease is attributed to the scheduled principal payments on the debt.

### **ECONOMIC FACTORS**

Significant economic factors affecting the entity are as follows:

- Federal funding of the U.S. Department of Housing and Urban Development and the U.S. Department of Agriculture (or applicable agency)
- Local labor supply and demand, which can affect salary and wage rates
- Local inflationary, recessionary and employment trends, which can affect resident incomes and therefore the amount of rental income
- Inflationary pressure on utility rates, supplies and other costs
- Availability of landlords and associated properties accepting Section 8 voucher contracts in the Authority's service area
- Number of other low-rent housing programs competing in the Authority's service area

### **FINANCIAL CONTACT**

The individual to be contacted regarding this report is Ron Azlin, Executive Director of the Housing Authority of the City of Hugo, at (580) 326-3348. Specific requests may be submitted to Ron Azlin, Executive Director, at 300 13<sup>th</sup> Place, Hugo, Oklahoma, 74743.



## Independent Auditors' Report

To the Board of Commissioners  
Housing Authority of the City of Hugo  
Hugo, Oklahoma

We have audited the accompanying statements of net assets of the Housing Authority of the City of Hugo (the "Authority") as of December 31, 2011 and 2010, and the related statements of revenues and expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Authority as of December 31, 2011 and 2010 and the changes in its financial position and its cash flows for the years 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 dated August 23, 2012, on our consideration of the Authority's internal control over financial reporting and 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 assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Management's Discussion and Analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basis financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. This supplemental schedule is also the responsibility of the Authority's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying Financial Data Schedule is presented for purposes of additional analysis and to fulfill requirements of the U.S. Department of Housing and Urban Development, Real Estate Assessment Center, and is not a required part of the basic financial statements. This supplemental schedule is also the responsibility of the Authority's management and was derived from and relates 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.



August 23, 2012

# HOUSING AUTHORITY OF THE CITY OF HUGO

## STATEMENTS OF NET ASSETS

<i>December 31,</i>	2011	2010
<b>ASSETS</b>		
<b>Current Assets:</b>		
Cash - unrestricted	\$ 242,706	\$ 251,583
Cash - restricted for tenants' security deposits	27,209	27,197
Cash - other restricted	<u>118,513</u>	<u>111,838</u>
<b>Total Cash and Cash Equivalents</b>	<b>388,428</b>	<b>390,618</b>
Investments - unrestricted, including accrued interest receivable of \$474 in 2011 and \$1,402 in 2010	575,552	567,829
Investments - restricted	72,760	72,547
Accounts receivable:		
Intergovernmental	16,748	2,191
Tenants, net of allowance for doubtful accounts of \$13,023 in 2011 and \$564 in 2010	7,444	12,273
Prepaid expenses and other assets	2,750	1,931
Inventory	<u>33,977</u>	<u>40,597</u>
<b>Total Current Assets</b>	<b><u>1,097,659</u></b>	<b><u>1,087,986</u></b>
<b>Property and Equipment, at cost:</b>		
Land	109,218	109,218
Buildings and improvements	12,690,169	12,380,148
Furniture and equipment	287,289	267,042
Construction in progress	<u>14,895</u>	<u>21,440</u>
<b>Total property and equipment</b>	<b>13,101,571</b>	<b>12,777,848</b>
Less accumulated depreciation	<u>10,035,038</u>	<u>9,642,653</u>
<b>Net Property and Equipment</b>	<b><u>3,066,533</u></b>	<b><u>3,135,195</u></b>
<b>Total Assets</b>	<b><u>\$ 4,164,192</u></b>	<b><u>\$ 4,223,181</u></b>

The accompanying notes are an integral part of the financial statements.

<i>December 31,</i>	<b>2011</b>	<b>2010</b>
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**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

Accounts payable:

Vendors and contractors	\$ 1,920	\$ 2,402
Tenant security deposits	27,209	27,197
Intergovernmental	18,101	18,329
Accrued liabilities	27,203	18,371
Deferred revenues	8,406	10,989
Current portion of long-term debt	<u>20,743</u>	<u>20,634</u>

<b>Total Current Liabilities</b>	<b>103,582</b>	<b>97,922</b>
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<b>Long-Term Debt</b>	<u><b>312,488</b></u>	<u><b>331,444</b></u>
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<b>Total Liabilities</b>	<u><b>416,070</b></u>	<u><b>429,366</b></u>
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**Net Assets:**

Unrestricted	805,186	792,582
Restricted	209,634	218,116
Invested in capital assets, net of related debt	<u>2,733,302</u>	<u>2,783,117</u>

<b>Total Net Assets</b>	<u><b>3,748,122</b></u>	<u><b>3,793,815</b></u>
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<b>Total Liabilities and Net Assets</b>	<u><b>\$ 4,164,192</b></u>	<u><b>\$ 4,223,181</b></u>
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# HOUSING AUTHORITY OF THE CITY OF HUGO

## **STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

<i>Years Ended December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Operating Revenues:</b>		
Net tenant rental revenue	\$ 282,324	\$ 281,118
Other tenant revenue	<u>27,077</u>	<u>25,552</u>
Total tenant revenue	309,401	306,670
Other operating revenue	<u>17,175</u>	<u>28,350</u>
<b>Total Operating Revenues</b>	<u>326,576</u>	<u>335,020</u>
<b>Operating Expenses:</b>		
Administrative services	448,981	423,669
Depreciation	392,385	411,162
Ordinary maintenance and operation	333,403	321,237
Insurance	75,334	83,118
Protective services	58,938	51,567
Utilities	53,514	41,851
Payment in lieu of taxes	18,101	18,329
Bad debts	20,168	4,671
Nonroutine maintenance	18,819	5,420
Other general	<u>8,238</u>	<u>1</u>
<b>Total Operating Expenses</b>	<u>1,427,881</u>	<u>1,361,025</u>
<b>Operating Loss</b>	<u>(1,101,305)</u>	<u>(1,026,005)</u>
<b>Nonoperating Revenue (Expense):</b>		
Intergovernmental grants and subsidies:		
HUD-Section 8-vouchers	526,619	554,364
HUD-Public housing operating subsidies	597,770	483,892
HUD-Public housing modernization	15,745	59,590
Other federal grants	53,728	51,139
Housing assistance payments	(465,129)	(450,323)
Investment income	8,864	12,122
Interest expense, net of federal subsidy of \$22,182 in 2011 and \$23,855 in 2010	<u>(5,212)</u>	<u>(7,032)</u>
<b>Total Nonoperating Revenue</b>	<u>732,385</u>	<u>703,752</u>

The accompanying notes are an integral part of the financial statements.

<i>Years Ended December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Change in Net Assets Before Capital Grants</b>	<b>(368,920)</b>	<b>(322,253)</b>
<b>Capital Grants</b>	<b><u>323,227</u></b>	<b><u>456,247</u></b>
<b>Change in Net Assets</b>	<b>(45,693)</b>	<b>133,994</b>
<b>Net Assets, beginning of year</b>	<b><u>3,793,815</u></b>	<b><u>3,659,821</u></b>
<b>Net Assets, end of year</b>	<b><u><u>\$ 3,748,122</u></u></b>	<b><u><u>\$ 3,793,815</u></u></b>

# HOUSING AUTHORITY OF THE CITY OF HUGO

## STATEMENTS OF CASH FLOWS

<i>Years Ended December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Cash Flows From Operating Activities:</b>		
Cash received from tenants	\$ 313,644	\$ 300,964
Cash received from other sources	17,175	28,350
Cash payments to employees for services	(488,461)	(437,227)
Cash payments for goods or services	<u>(533,112)</u>	<u>(517,286)</u>
<b>Net Cash Used In Operating Activities</b>	<u><b>(690,754)</b></u>	<u><b>(625,199)</b></u>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Intergovernmental grants and subsidies	1,177,320	1,114,339
Housing Assistance Payments	<u>(465,129)</u>	<u>(450,323)</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u><b>712,191</b></u>	<u><b>664,016</b></u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Intergovernmental grants	323,227	560,361
Principal payments on long-term debt	(18,847)	(17,019)
Interest paid	(5,212)	(7,032)
Additions to property and equipment	<u>(323,723)</u>	<u>(555,146)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u><b>(24,555)</b></u>	<u><b>(18,836)</b></u>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(8,777)	(20,510)
Investment income	<u>9,705</u>	<u>11,939</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u><b>928</b></u>	<u><b>(8,571)</b></u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(2,190)</b>	<b>11,410</b>
<b>Cash and Cash Equivalents, beginning of year</b>	<u><b>390,618</b></u>	<u><b>379,208</b></u>
<b>Cash and Cash Equivalents, end of year</b>	<u><u><b>\$ 388,428</b></u></u>	<u><u><b>\$ 390,618</b></u></u>

The accompanying notes are an integral part of the financial statements.

<i>Years Ended December 31,</i>	<b>2011</b>	<b>2010</b>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities:</b>		
Operating loss	<b>\$ (1,101,305)</b>	<b>\$ (1,026,005)</b>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	<b>392,385</b>	411,162
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	<b>4,829</b>	(8,585)
(Increase) decrease in prepaid expenses	<b>(819)</b>	14,298
(Increase) decrease in inventory	<b>6,620</b>	(13,237)
Decrease in accounts payable	<b>(698)</b>	(1,705)
Increase (decrease) in accrued liabilities	<b>8,832</b>	(1,621)
Increase (decrease) in deferred revenue	<b>(598)</b>	494
<b>Net Cash Used In Operating Activities</b>	<b><u>\$ (690,754)</u></b>	<b><u>\$ (625,199)</u></b>

# HOUSING AUTHORITY OF THE CITY OF HUGO

## STATEMENTS OF CASH FLOWS

<i>Years Ended December 31,</i>	2011	2010
<b>Cash Flows From Operating Activities:</b>		
Cash received from tenants	\$ 313,644	\$ 300,964
Cash received from other sources	17,175	28,350
Cash payments to employees for services	(488,461)	(437,227)
Cash payments for goods or services	<u>(533,112)</u>	<u>(517,286)</u>
<b>Net Cash Used In Operating Activities</b>	<u>(690,754)</u>	<u>(625,199)</u>
<b>Cash Flows From Noncapital Financing Activities:</b>		
Intergovernmental grants and subsidies	1,177,320	1,114,339
Housing Assistance Payments	<u>(465,129)</u>	<u>(450,323)</u>
<b>Net Cash Provided by Noncapital Financing Activities</b>	<u>712,191</u>	<u>664,016</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>		
Intergovernmental grants	323,227	560,361
Principal payments on long-term debt	(18,847)	(17,019)
Interest paid	(5,212)	(7,032)
Additions to property and equipment	<u>(323,723)</u>	<u>(555,146)</u>
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(24,555)</u>	<u>(18,836)</u>
<b>Cash Flows From Investing Activities:</b>		
Purchase of investments	(8,777)	(20,510)
Investment income	<u>9,705</u>	<u>11,939</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>928</u>	<u>(8,571)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(2,190)	11,410
<b>Cash and Cash Equivalents, beginning of year</b>	<u>390,618</u>	<u>379,208</u>
<b>Cash and Cash Equivalents, end of year</b>	<u>\$ 388,428</u>	<u>\$ 390,618</u>

The accompanying notes are an integral part of the financial statements.

**HOUSING AUTHORITY OF THE CITY OF HUGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization and Reporting Entity:** The Housing Authority of the City of Hugo (the "Authority") is a municipal entity created under the provisions of the laws of the State of Oklahoma for the development, operation, and administration of low rent housing programs. The programs are administered through the U.S. Department of Housing and Urban Development ("HUD") under the U.S. Housing Act of 1937, as amended. The primary purpose of the programs is to provide safe, decent, and sanitary housing for low-income families in the Hugo, Oklahoma area. The financial liability of the Authority is essentially supported by the operating subsidies and capital grants received under contracts from the Federal government.

The Authority operates its programs primarily with grants and subsidies received from HUD and the U.S. Department of Agriculture ("USDA") under contractual agreements and with rental proceeds received from tenants. Funds for the acquisition, development, or modernization of dwelling units have generally been derived from HUD grants.

The Authority is exposed to all common risks associated with the ownership of rental real estate properties. These risks are covered by commercial insurance.

The Authority has no component units, as defined by the Governmental Accounting Standards Board ("GASB").

**Basis of Accounting:** The Authority presents its activities in a proprietary fund category. The measurement focus of proprietary activities is on the determination of net income, financial position, and cash flows. As a result, the Authority uses the accrual method of accounting, whereby revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services to tenants. Operating revenues and expenses consist of rental revenues and other charges collected from tenants, and expenses associated with operating low-income housing projects. All other revenues and expenses are reported as nonoperating revenues and expenses.

The Authority follows the policy of applying all applicable pronouncements of GASB as well as following all Financial Accounting Standards Board statements and interpretations, except for those that conflict with or contradict GASB pronouncements.

**Use of 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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the accounting period. Actual results could differ from those estimates.

# HOUSING AUTHORITY OF THE CITY OF HUGO

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2011 AND 2010

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**Cash and Cash Equivalents:** For purposes of the statement of cash flows, the Authority considers highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, with the exception of reserve funds required by the USDA under the Rural Rental housing program, which are considered investments by the Authority.

**Investments:** Investments, including restricted investments, consist of money market funds and short-term certificates of deposit, which are considered money market type investments as defined by GASB. The investments are recorded at cost, which approximates market value.

Restricted investments consist of certificates of deposit and money market funds restricted for Housing Choice Vouchers housing assistance payments and for reserve funds required by the USDA under the Rural Rental Housing Loans Program.

**Inventory:** Inventory consists of expendable materials and supplies held for consumption. They are valued at cost (first-in, first-out method).

**Property and Equipment:** Property and equipment are recorded at cost, which is comprised of development and modernization costs, capitalized interest (if any), the fair value of donated assets, the cost of property betterments, and the cost of additions from operations. Upon sale or retirement, the costs are removed from the accounts and the resulting gain or loss is included in income or expense. It is the policy of the Housing Authority to capitalize all assets with a cost of \$5,000 or greater. Depreciation is provided over the estimated useful lives using the straight-line method.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings and improvements	15 - 40 years
Furniture and equipment	3 - 5 years

Repairs and maintenance are expensed, whereas major improvements are capitalized.

**Compensated Absences:** It is the Authority's policy to allow employees to accumulate earned but unused vacation and sick pay benefits up to certain limits. These amounts are charged to expense and a corresponding liability is established when earned.

**Income Taxes:** The Authority, as a governmental entity, is not liable for federal and state income taxes. However, the Authority does make annual payments in lieu of taxes ("PILOT") to local school districts.

**Interfund Balances:** Balances receivable or payable between separate program funds established by the Authority, and interfund operating transfers and equity transfers are eliminated in the preparation of these financial statements.

# HOUSING AUTHORITY OF THE CITY OF HUGO

## NOTES TO FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2011 AND 2010

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**Deferred Revenues:** Deferred revenues consist primarily of housing assistance payment funding from HUD, received in advance of funds being used, and prepaid rental income from tenants.

**Net Assets:** Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Restricted net assets at December 31, 2011 and 2010, consist of (1) reserve funds as required by the USDA and (2) excess housing assistance payment funding received from HUD's Section 8 Housing Choice Vouchers program. HUD has restricted the use of this funding for future rental assistance payments, subject to current program guidelines.

**Subsequent Events:** Subsequent events have been evaluated through August 23, 2012, which is the date the financial statements were available to be issued.

## 2. DEPOSITS AND INVESTMENTS

It is the Authority's policy to invest in those securities which are authorized by HUD. Such investments generally consist of obligations of the U. S. government and its agencies and instrumentalities, collateralized or insured certificates of deposit, or other bank deposits, and certain other commercial instruments. The primary objectives of the Authority's investment policy are safety, liquidity, yield, and administrative costs.

**HOUSING AUTHORITY OF THE CITY OF HUGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

Deposit balances of the Authority are categorized to give an indication of the level of custodial credit risk assumed by the Authority at December 31, as follows:

	2011			<u>Bank Balance</u>	<u>Book Balance</u>
	Category				
	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>		
Cash and cash equivalents	\$ 381,478	\$ 29,943	\$ -	\$ 411,421	\$ 387,728
Certificates of deposit and money market funds (classified as investments)	<u>647,838</u>	<u>-</u>	<u>-</u>	<u>647,838</u>	<u>647,838</u>
	<u>\$1,029,316</u>	<u>\$ 29,943</u>	<u>\$ -</u>	<u>\$1,059,259</u>	1,035,566
Cash on hand – not categorized					<u>700</u>
					<u>\$1,036,266</u>

	2010			<u>Bank Balance</u>	<u>Book Balance</u>
	Category				
	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>		
Cash and cash equivalents	\$ 375,874	\$32,566	\$ -	\$ 408,440	\$ 389,918
Certificates of deposit and money market funds (classified as investments)	<u>638,974</u>	<u>-</u>	<u>-</u>	<u>638,974</u>	<u>638,974</u>
	<u>\$1,014,848</u>	<u>\$32,566</u>	<u>\$ -</u>	<u>\$1,047,414</u>	1,028,892
Cash on hand – not categorized					<u>700</u>
					<u>\$1,029,592</u>

Deposit Categories of Custodial Credit Risk

- (a): Insured by the Federal Deposit Insurance Corporation.
- (b): Collateralized with securities held by the pledging financial institutions' trust department or agent in the Authority's name.
- (c): Uncollateralized.

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**HOUSING AUTHORITY OF THE CITY OF HUGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

Unrestricted and restricted investments consist of certificates of deposit and money market funds, which are considered investments by the Authority. All certificates of deposit mature in 2011.

Restricted cash and investment accounts are certificates of deposit and money market funds held for tenants' security deposits, excess housing assistance payment funds, a replacement reserve required by the USDA, and other purposes.

**3. PROPERTY AND EQUIPMENT**

A summary of property and equipment for 2011 and 2010 is as follows:

	<u>01/01/11</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/11</u>
Land (not depreciated)	\$ 109,218	\$ -	\$ -	\$ 109,218
Building and Improvements	12,380,148	310,021	-	12,690,169
Furniture and Equipment	<u>267,042</u>	<u>20,247</u>	-	<u>287,289</u>
	<u>12,756,408</u>	<u>330,268</u>	-	<u>13,086,676</u>
			-	
Less: Accumulated Depreciation	<u>(9,642,653)</u>	<u>(392,385)</u>	-	<u>(10,035,038)</u>
Net Fixed Assets	3,113,755	(62,117)		3,051,638
Construction in Progress	<u>21,440</u>	<u>323,723</u>	<u>(330,268)</u>	<u>14,895</u>
<b>Total</b>	<b><u>\$ 3,135,195</u></b>	<b><u>\$ 261,606</u></b>	<b><u>\$ (330,268)</u></b>	<b><u>\$3,066,533</u></b>
	<u>01/01/10</u>	<u>Increases</u>	<u>Decreases</u>	<u>12/31/10</u>
Land (not depreciated)	\$ 109,218	\$ -	\$ -	\$ 109,218
Building and Improvements	11,343,624	1,036,524	-	12,380,148
Furniture and Equipment	<u>267,042</u>	-	-	<u>267,042</u>
	11,719,884	1,036,524	-	12,756,408
Less: Accumulated Depreciation	<u>(9,231,491)</u>	<u>(411,162)</u>	-	<u>(9,642,653)</u>
Net Fixed Assets	2,488,393	625,362	-	3,113,755
Construction in Progress	<u>602,212</u>	<u>455,752</u>	<u>(1,036,524)</u>	<u>21,440</u>
<b>Total</b>	<b><u>\$ 3,090,605</u></b>	<b><u>\$ 1,081,114</u></b>	<b><u>\$(1,036,524)</u></b>	<b><u>\$ 3,135,195</u></b>

**HOUSING AUTHORITY OF THE CITY OF HUGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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**4. ACCOUNTS RECEIVABLE-INTERGOVERNMENTAL**

Accounts receivable-intergovernmental consists of the following as of December 31:

	<u>2011</u>	<u>2010</u>
Public housing capital fund program	\$ 14,557	\$ -
Rural rental housing assistance program	<u>2,191</u>	<u>2,191</u>
	<u>\$ 16,748</u>	<u>\$ 2,191</u>

**5. COMMITMENTS AND CONTINGENCIES**

The activities of the Authority are currently funded in large part by the Federal government and future operations of the Authority are reliant on continuation of this funding from the Federal government.

Amounts received or receivable from HUD are subject to audit and adjustment by HUD. Any disallowed expenses may constitute a liability of the Authority. The amount of expenses which may be disallowed by HUD, if any, cannot be determined at this time, although the Authority expects such amounts to be immaterial.

**6. RETIREMENT PLAN**

GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions" became effective in 2009 for the Authority. The Authority has no postemployment benefit plans as contemplated by GASB Statement No. 45.

The Authority participates in a defined contribution plan administered by the Housing Renewal and Local Agency Retirement Plan. The Authority is required to contribute 7.5% of annual covered payroll which is deferred. For 2011 and 2010, contributions by the Authority to the Plan were approximately \$28,600 and \$28,400, respectively.

**7. INSURANCE REQUIREMENT**

The Authority maintains fidelity bond insurance coverage of \$87,000, which meets the minimum requirements for insurance coverage under the *USDA Handbook HB-2-3560*.

**HOUSING AUTHORITY OF THE CITY OF HUGO**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2011 AND 2010**

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**8. LONG-TERM DEBT**

Long-term debt consists of the following:

	<u>2011</u>	<u>2010</u>
8% - 8.25% notes payable to the United States Department of Agriculture Rural Development, due in monthly installments of approximately \$1,900 (net of interest subsidy), with the final installment due June 2028. The loan is collateralized by a multi-family housing project (Burnside Apartments). Interest on the note is, in large part, paid by federal government subsidies, which amounted to approximately \$22,200 and \$23,900 in 2011 and 2010, respectively.	<b>\$333,231</b>	\$352,078
Less current maturities	<u>20,743</u>	<u>20,634</u>
	<b><u>\$312,488</u></b>	<b><u>\$331,444</u></b>

Estimated future debt service of long-term debt is as follows:

	<u>Principal</u>	<u>Interest, net of Subsidy</u>	<u>Total</u>
2011	\$ 20,743	\$ 1,661	\$ 22,404
2012	20,743	1,661	22,404
2013	20,743	1,661	22,404
2014	20,743	1,661	22,404
2015	20,743	1,661	22,404
Thereafter	<u>229,516</u>	<u>19,131</u>	<u>248,647</u>
	<b><u>\$333,231</u></b>	<b><u>\$27,436</u></b>	<b><u>\$360,667</u></b>

Activity in long-term debt is as follows for the years ended December 31:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	<b>\$ 352,078</b>	\$ 369,097
Principal advances	-	-
Principal repayments	<u>(18,847)</u>	<u>(17,019)</u>
Balance, end of year	<b><u>\$ 333,231</u></b>	<b><u>\$ 352,078</u></b>

**SUPPLEMENTARY INFORMATION**

# HOUSING AUTHORITY OF THE CITY OF HUGO

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2011

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Contract/ Grant Number</u>	<u>Current Year Expenditures</u>
<b>U.S. Department of Housing and Urban Development:</b>			
Low rent public housing	14.850	FW-1322	\$ 597,770 (*)
Public housing capital fund program	14.872	OK56P044	338,972
Assisted Housing:			
Section 8 - Rental Voucher Program	14.871		526,619
<b>U.S. Department of Agriculture:</b>			
Rural Rental assistance payments	10.427		A> <u>53,728 (*)</u>
<b>Total Expended Directly By The Authority</b>			<u><u>\$ 1,517,089</u></u>
<b>Interest Subsidy paid by U.S. Department of Agriculture</b>	10.415		A> \$ 22,182 (*)
<b>Authority Debt Payable to U.S. Department of Agriculture</b>	10.415		A> <u>333,231 (*)</u>
<b>Total Non-Cash Expenditures</b>			<u><u>\$ 355,413</u></u>
<b>Total</b>			<u><u>\$ 1,872,502</u></u>

(\*) Major Program

A> Cluster Programs

**HOUSING AUTHORITY OF THE CITY OF HUGO**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2011**

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1. **BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal contract and grant activity of the Housing Authority of the City of Hugo (the "Authority") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *"Audits of States, Local Governments, and Non-Profit Organizations."* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

2. **AMOUNTS PAID TO SUBRECIPIENTS**

There were no significant amounts provided to subrecipients for the year ended December 31, 2011.

**HOUSING AUTHORITY OF THE CITY OF HUGO  
FINANCIAL DATA SCHEDULE**

December 31, 2011

Line Item No.	Description	Project Total	10.415 Rural Rental Housing Loans	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	Subtotal	ELIM	Total
<b>Balance Sheet</b>								
111	Cash - Unrestricted	\$ 191,061	\$ 51,645	\$ -	\$ -	\$ 242,706	\$ -	\$ 242,706
112	Cash - Restricted - Modernization and Development	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
113	Cash - Other Restricted	\$ -	\$ -	\$ 118,513	\$ -	\$ 118,513	\$ -	\$ 118,513
114	Cash - Tenant Security Deposits	\$ 24,089	\$ 3,120	\$ -	\$ -	\$ 27,209	\$ -	\$ 27,209
115	Cash - Restricted for Payment of Current Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
100	<b>Total Cash</b>	<b>\$ 215,150</b>	<b>\$ 54,765</b>	<b>\$ 118,513</b>	<b>\$ -</b>	<b>\$ 388,428</b>	<b>\$ -</b>	<b>\$ 388,428</b>
121	Accounts Receivable - PHA Projects	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
122	Accounts Receivable - HUD Other Projects	\$ 14,557	\$ -	\$ -	\$ -	\$ 14,557	\$ -	\$ 14,557
124	Accounts Receivable - Other Government	\$ -	\$ 2,191	\$ -	\$ -	\$ 2,191	\$ -	\$ 2,191
125	Accounts Receivable - Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
126	Accounts Receivable - Tenants	\$ 19,403	\$ 1,064	\$ -	\$ -	\$ 20,467	\$ -	\$ 20,467
126.1	Allowance for Doubtful Accounts - Tenants	\$ (12,970)	\$ (53)	\$ -	\$ -	\$ (13,023)	\$ -	\$ (13,023)
126.2	Allowance for Doubtful Accounts - Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
127	Notes, Loans, & Mortgages Receivable - Current	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
128	Fraud Recovery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
128.1	Allowance for Doubtful Accounts - Fraud	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
129	Accrued Interest Receivable	\$ 468	\$ 6	\$ -	\$ -	\$ 474	\$ -	\$ 474
120	<b>Total Receivables, net of Allowances for Doubtful Accounts</b>	<b>\$ 21,458</b>	<b>\$ 3,208</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,666</b>	<b>\$ -</b>	<b>\$ 24,666</b>
131	Investments - Unrestricted	\$ 575,078	\$ -	\$ -	\$ -	\$ 575,078	\$ -	\$ 575,078
132	Investments - Restricted	\$ -	\$ 72,760	\$ -	\$ -	\$ 72,760	\$ -	\$ 72,760
135	Investments - Restricted for Payment of Current Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
142	Prepaid Expenses and Other Assets	\$ 2,701	\$ 49	\$ -	\$ -	\$ 2,750	\$ -	\$ 2,750
143	Inventories	\$ 35,765	\$ -	\$ -	\$ -	\$ 35,765	\$ -	\$ 35,765
143.1	Allowance for Obsolete Inventories	\$ (1,788)	\$ -	\$ -	\$ -	\$ (1,788)	\$ -	\$ (1,788)
144	Inter Program Due From	\$ 200,632	\$ -	\$ -	\$ -	\$ 200,632	\$ (200,632)	\$ -
145	Assets Held for Sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
150	<b>Total Current Assets</b>	<b>\$ 1,048,996</b>	<b>\$ 130,782</b>	<b>\$ 118,513</b>	<b>\$ -</b>	<b>\$ 1,298,291</b>	<b>\$ (200,632)</b>	<b>\$ 1,097,659</b>
161	Land	\$ 99,218	\$ 10,000	\$ -	\$ -	\$ 109,218	\$ -	\$ 109,218
162	Buildings	\$ 11,754,198	\$ 935,971	\$ -	\$ -	\$ 12,690,169	\$ -	\$ 12,690,169
163	Furniture, Equipment & Machinery - Dwellings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
164	Furniture, Equipment & Machinery - Administration	\$ 287,289	\$ -	\$ -	\$ -	\$ 287,289	\$ -	\$ 287,289
165	Leasehold Improvements	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
166	Accumulated Depreciation	\$ (9,288,116)	\$ (746,922)	\$ -	\$ -	\$ (10,035,038)	\$ -	\$ (10,035,038)
167	Construction in Progress	\$ 14,895	\$ -	\$ -	\$ -	\$ 14,895	\$ -	\$ 14,895
168	Infrastructure	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
160	<b>Total Capital Assets, Net of Accumulated Depreciation</b>	<b>\$ 2,867,484</b>	<b>\$ 199,049</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,066,533</b>	<b>\$ -</b>	<b>\$ 3,066,533</b>
171	Notes, Loans and Mortgages Receivable - Non-Current	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
172	Notes, Loans and Mortgages Receivable - Non-Current - Past Due	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
173	Grants Receivable - Non Current	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
174	Other Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
176	Investments in Joint Ventures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
180	<b>Total Non-current Assets</b>	<b>\$ 2,867,484</b>	<b>\$ 199,049</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,066,533</b>	<b>\$ -</b>	<b>\$ 3,066,533</b>
190	<b>Total Assets</b>	<b>\$ 3,916,480</b>	<b>\$ 329,831</b>	<b>\$ 118,513</b>	<b>\$ -</b>	<b>\$ 4,364,824</b>	<b>\$ (200,632)</b>	<b>\$ 4,164,192</b>
311	Bank Overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
312	Accounts Payable <= 90 Days	\$ 1,768	\$ 83	\$ 69	\$ -	\$ 1,920	\$ -	\$ 1,920
313	Accounts Payable >90 Days Past Due	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
321	Accrued Wage/Payroll Taxes Payable	\$ 3,606	\$ 375	\$ 459	\$ -	\$ 4,440	\$ -	\$ 4,440
322	Accrued Compensated Absences - Current Portion	\$ 13,224	\$ -	\$ 1,679	\$ -	\$ 14,903	\$ -	\$ 14,903
324	Accrued Contingency Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
325	Accrued Interest Payable	\$ -	\$ 228	\$ -	\$ -	\$ 228	\$ -	\$ 228
331	Accounts Payable - HUD PHA Programs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
332	Accounts Payable - PHA Projects	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
333	Accounts Payable - Other Government	\$ 18,101	\$ -	\$ -	\$ -	\$ 18,101	\$ -	\$ 18,101
341	Tenant Security Deposits	\$ 24,089	\$ 3,120	\$ -	\$ -	\$ 27,209	\$ -	\$ 27,209

See independent auditors' report.

**HOUSING AUTHORITY OF THE CITY OF HUGO  
FINANCIAL DATA SCHEDULE**

December 31, 2011

Line Item No.	Description	Project Total	10.415 Rural Rental Housing Loans	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	Subtotal	ELIM	Total
342	Deferred Revenues	\$ 756	\$ 208	\$ 7,442	\$ -	\$ 8,406	\$ -	\$ 8,406
343	Current Portion of Long-term Debt - Capital Projects/Mortgage	\$ -	\$ 20,743	\$ -	\$ -	\$ 20,743	\$ -	\$ 20,743
344	Current portion of long-term debt - operating borrowings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
345	Other Current Liabilities	\$ 4,803	\$ 2,829	\$ -	\$ -	\$ 7,632	\$ -	\$ 7,632
346	Accrued Liabilities - Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
347	Inter Program - Due To	\$ -	\$ 147,779	\$ 52,853	\$ -	\$ 200,632	\$ (200,632)	\$ -
348	Loan Liability - Current	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
310	<b>Total Current Liabilities</b>	\$ 66,347	\$ 175,365	\$ 62,502	\$ -	\$ 304,214	\$ (200,632)	\$ 103,582
351	Long-term Debt, Net of Current - Capital Projects/Mortgage Revenue	\$ -	\$ 312,488	\$ -	\$ -	\$ 312,488	\$ -	\$ 312,488
352	Long-term Debt, Net of Current - Operating Borrowings	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
353	Non-current Liabilities - Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
354	Accrued Compensated Absences - Non Current	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
355	Loan Liability - Non Current	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
356	FASB 5 Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
357	Accrued Pension and OPEB Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
350	<b>Total Non-Current Liabilities</b>	\$ -	\$ 312,488	\$ -	\$ -	\$ 312,488	\$ -	\$ 312,488
300	<b>Total Liabilities</b>	\$ 66,347	\$ 487,853	\$ 62,502	\$ -	\$ 616,702	\$ (200,632)	\$ 416,070
508.1	Invested in Capital Assets, Net of Related Debt	\$ 2,867,484	\$ (134,182)	\$ -	\$ -	\$ 2,733,302	\$ -	\$ 2,733,302
509.2	Fund Balance Reserved	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
511.2	Unreserved, Designated Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
511.1	Restricted Net Assets	\$ -	\$ 72,760	\$ 136,874	\$ -	\$ 209,634	\$ -	\$ 209,634
512.1	Unrestricted Net Assets	\$ 982,649	\$ (96,600)	\$ (80,863)	\$ -	\$ 805,186	\$ -	\$ 805,186
512.2	Unreserved, Undesignated Fund Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
513	<b>Total Equity/Net Assets</b>	\$ 3,850,133	\$ (158,022)	\$ 56,011	\$ -	\$ 3,748,122	\$ -	\$ 3,748,122
600	<b>Total Liabilities and Equity/Net Assets</b>	\$ 3,916,480	\$ 329,831	\$ 118,513	\$ -	\$ 4,364,824	\$ (200,632)	\$ 4,164,192

Income Statement								
70300	Net Tenant Rental Revenue	\$ 206,893	\$ 75,431	\$ -	\$ -	\$ 282,324	\$ -	\$ 282,324
70400	Tenant Revenue - Other	\$ 25,916	\$ 1,161	\$ -	\$ -	\$ 27,077	\$ -	\$ 27,077
70500	<b>Total Tenant Revenue</b>	\$ 232,809	\$ 76,592	\$ -	\$ -	\$ 309,401	\$ -	\$ 309,401
70600	HUD PHA Operating Grants	\$ 613,515	\$ -	\$ 526,619	\$ -	\$ 1,140,134	\$ -	\$ 1,140,134
70610	Capital Grants	\$ 323,227	\$ -	\$ -	\$ -	\$ 323,227	\$ -	\$ 323,227
70710	Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70720	Asset Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70730	Book Keeping Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70740	Front Line Service Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70750	Other Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70700	<b>Total Fee Revenue</b>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
70800	Other Government Grants	\$ -	\$ 53,728	\$ -	\$ -	\$ 53,728	\$ -	\$ 53,728
71100	Investment Income - Unrestricted	\$ 8,203	\$ 245	\$ 116	\$ -	\$ 8,564	\$ -	\$ 8,564
71200	Mortgage Interest Income	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
71300	Proceeds from Disposition of Assets Held for Sale	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
71310	Cost of Sale of Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
71400	Fraud Recovery	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
71500	Other Revenue	\$ 17,175	\$ -	\$ -	\$ -	\$ 17,175	\$ -	\$ 17,175
71600	Gain or Loss on Sale of Capital Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
72000	Investment Income - Restricted	\$ -	\$ 100	\$ 200	\$ -	\$ 300	\$ -	\$ 300
70000	<b>Total Revenue</b>	\$ 1,194,929	\$ 130,665	\$ 526,935	\$ -	\$ 1,852,529	\$ -	\$ 1,852,529
91100	Administrative Salaries	\$ 204,402	\$ 24,483	\$ 44,047	\$ -	\$ 272,932	\$ -	\$ 272,932
91200	Auditing Fees	\$ 17,300	\$ 8,400	\$ -	\$ -	\$ 25,700	\$ -	\$ 25,700
91300	Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
91310	Book-keeping Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

See independent auditors' report.

**HOUSING AUTHORITY OF THE CITY OF HUGO  
FINANCIAL DATA SCHEDULE**

**December 31, 2011**

Line Item No.	Description	Project Total	10.415 Rural Rental Housing Loans	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	Subtotal	ELIM	Total
91400	Advertising and Marketing	\$ 1,562	\$ 76	\$ -	\$ -	\$ 1,638	\$ -	\$ 1,638
91500	Employee Benefit Contributions - Administrative	\$ 69,008	\$ 8,942	\$ 4,958	\$ -	\$ 82,908	\$ -	\$ 82,908
91600	Office Expenses	\$ 11,533	\$ 1,243	\$ 1,093	\$ -	\$ 13,869	\$ -	\$ 13,869
91700	Legal Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
91800	Travel	\$ 10,660	\$ 1,081	\$ -	\$ -	\$ 11,741	\$ -	\$ 11,741
91810	Allocated Overhead	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
91900	Other	\$ 33,312	\$ 3,178	\$ 3,703	\$ -	\$ 40,193	\$ -	\$ 40,193
91000	<b>Total Operating - Administrative</b>	<b>\$ 347,777</b>	<b>\$ 47,403</b>	<b>\$ 53,801</b>	<b>\$ -</b>	<b>\$ 448,981</b>	<b>\$ -</b>	<b>\$ 448,981</b>
92000	Asset Management Fee	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
92100	Tenant Services - Salaries	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
92200	Relocation Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
92300	Employee Benefit Contributions - Tenant Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
92400	Tenant Services - Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
92500	<b>Total Tenant Services</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
93100	Water	\$ 4,507	\$ 21,928	\$ -	\$ -	\$ 26,435	\$ -	\$ 26,435
93200	Electricity	\$ 19,245	\$ 235	\$ -	\$ -	\$ 19,480	\$ -	\$ 19,480
93300	Gas	\$ 3,996	\$ -	\$ -	\$ -	\$ 3,996	\$ -	\$ 3,996
93400	Fuel	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
93500	Labor	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
93600	Sewer	\$ 1,032	\$ 2,571	\$ -	\$ -	\$ 3,603	\$ -	\$ 3,603
93700	Employee Benefit Contributions - Utilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
93800	Other Utilities Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
93000	<b>Total Utilities</b>	<b>\$ 28,780</b>	<b>\$ 24,734</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 53,514</b>	<b>\$ -</b>	<b>\$ 53,514</b>
94100	Ordinary Maintenance and Operations - Labor	\$ 158,244	\$ 9,466	\$ -	\$ -	\$ 167,710	\$ -	\$ 167,710
94200	Ordinary Maintenance and Operations - Materials and Other	\$ 57,728	\$ 9,307	\$ 9	\$ -	\$ 67,044	\$ -	\$ 67,044
94300	Ordinary Maintenance and Operations Contracts	\$ 31,740	\$ 8,689	\$ -	\$ -	\$ 40,429	\$ -	\$ 40,429
94500	Ordinary Maintenance and Operations - Ordinary Maintenance	\$ 54,018	\$ 4,202	\$ -	\$ -	\$ 58,220	\$ -	\$ 58,220
94000	<b>Total Maintenance</b>	<b>\$ 301,730</b>	<b>\$ 31,664</b>	<b>\$ 9</b>	<b>\$ -</b>	<b>\$ 333,403</b>	<b>\$ -</b>	<b>\$ 333,403</b>
95100	Protective Services - Labor	\$ 40,149	\$ 1,827	\$ -	\$ -	\$ 41,976	\$ -	\$ 41,976
95200	Protective Services - Other Contract Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
95300	Protective Services - Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
95500	Employee Benefit Contributions - Protective Services	\$ 16,818	\$ 144	\$ -	\$ -	\$ 16,962	\$ -	\$ 16,962
95000	<b>Total Protective Services</b>	<b>\$ 56,967</b>	<b>\$ 1,971</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 58,938</b>	<b>\$ -</b>	<b>\$ 58,938</b>
96110	Property Insurance	\$ 48,004	\$ 5,498	\$ 394	\$ -	\$ 53,896	\$ -	\$ 53,896
96120	Liability Insurance	\$ 2,126	\$ 1,046	\$ 89	\$ -	\$ 3,261	\$ -	\$ 3,261
96130	Workmen's Compensation	\$ 12,522	\$ -	\$ -	\$ -	\$ 12,522	\$ -	\$ 12,522
96140	All Other Insurance	\$ 4,913	\$ 742	\$ -	\$ -	\$ 5,655	\$ -	\$ 5,655
96100	<b>Total Insurance Premiums</b>	<b>\$ 67,565</b>	<b>\$ 7,286</b>	<b>\$ 483</b>	<b>\$ -</b>	<b>\$ 75,334</b>	<b>\$ -</b>	<b>\$ 75,334</b>
96200	Other General Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
96210	Compensated Absences	\$ 6,713	\$ -	\$ 1,525	\$ -	\$ 8,238	\$ -	\$ 8,238
96300	Payments in Lieu of Taxes	\$ 18,101	\$ -	\$ -	\$ -	\$ 18,101	\$ -	\$ 18,101
96400	Bad debt - Tenant Rents	\$ 19,760	\$ 408	\$ -	\$ -	\$ 20,168	\$ -	\$ 20,168
96500	Bad debt - Mortgages	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
96600	Bad debt - Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
96800	Severance Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
96000	<b>Total Other General Expenses</b>	<b>\$ 44,574</b>	<b>\$ 408</b>	<b>\$ 1,525</b>	<b>\$ -</b>	<b>\$ 46,507</b>	<b>\$ -</b>	<b>\$ 46,507</b>
96710	Interest of Mortgage (or Bonds) Payable	\$ -	\$ 5,212	\$ -	\$ -	\$ 5,212	\$ -	\$ 5,212
96720	Interest on Notes Payable (Short and Long Term)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
96730	Amortization of Bond Issue Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
96700	<b>Total Interest Expense and Amortization Cost</b>	<b>\$ -</b>	<b>\$ 5,212</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,212</b>	<b>\$ -</b>	<b>\$ 5,212</b>
96900	<b>Total Operating Expenses</b>	<b>\$ 847,393</b>	<b>\$ 118,678</b>	<b>\$ 55,818</b>	<b>\$ -</b>	<b>\$ 1,021,889</b>	<b>\$ -</b>	<b>\$ 1,021,889</b>
97000	<b>Excess of Operating Revenue over Operating Expenses</b>	<b>\$ 347,536</b>	<b>\$ 11,987</b>	<b>\$ 471,117</b>	<b>\$ -</b>	<b>\$ 830,640</b>	<b>\$ -</b>	<b>\$ 830,640</b>

See independent auditors' report.

**HOUSING AUTHORITY OF THE CITY OF HUGO  
FINANCIAL DATA SCHEDULE**

December 31, 2011

Line Item No.	Description	Project Total	10.415 Rural Rental Housing Loans	14.871 Housing Choice Vouchers	14.885 Formula Capital Fund Stimulus Grant	Subtotal	ELIM	Total
97100	Extraordinary Maintenance	\$ 18,819	\$ -	\$ -	\$ -	\$ 18,819	\$ -	\$ 18,819
97200	Casualty Losses - Non-capitalized	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
97300	Housing Assistance Payments	\$ -	\$ -	\$ 465,129	\$ -	\$ 465,129	\$ -	\$ 465,129
97350	HAP Portability-In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
97400	Depreciation Expense	\$ 363,875	\$ 28,510	\$ -	\$ -	\$ 392,385	\$ -	\$ 392,385
97500	Fraud Losses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
97600	Capital Outlays - Governmental Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
97700	Debt Principal Payment - Governmental Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
97800	Dwelling Units Rent Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
90000	<b>Total Expenses</b>	\$ 1,230,087	\$ 147,188	\$ 520,947	\$ -	\$ 1,898,222	\$ -	\$ 1,898,222
10010	Operating Transfer In	\$ 15,745	\$ -	\$ -	\$ -	\$ 15,745	\$ (15,745)	\$ -
10020	Operating Transfer Out	\$ (15,745)	\$ -	\$ -	\$ -	\$ (15,745)	\$ 15,745	\$ -
10030	Operating Transfers from/to Primary Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10040	Operating Transfers from/to Component Unit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10050	Proceeds from Notes, Loans and Bonds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10060	Proceeds from Property Sales	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10070	Extraordinary Items, Net Gain/Loss	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10080	Special Items (Net Gain/Loss)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10091	Inter Project Excess Cash Transfer In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10092	Inter Project Excess Cash Transfer Out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10093	Transfers between Program and Project - In	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10094	Transfers between Project and Program - Out	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10100	Other Other Financing Source (Uses)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10000	<b>Excess (Deficiency) of Revenue Over (Under) Total Expenses</b>	\$ (35,158)	\$ (16,523)	\$ 5,988	\$ -	\$ (45,693)	\$ -	\$ (45,693)
11020	Required Annual Debt Principal Payments	\$ -	\$ 20,743	\$ -	\$ -	\$ 20,743	\$ -	\$ 20,743
11030	Beginning Equity	\$ 3,885,291	\$ (141,499)	\$ 50,023	\$ -	\$ 3,793,815	\$ -	\$ 3,793,815
11040	Prior period Adjustments, Equity Transfers and Correction of Errors	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11050	Changes in Compensated Absence Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11060	Changes in Contingent Liability Balance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11070	Changes in Unrecognized Pension Transition Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11080	Changes in Special Term/Severance Benefits Liability	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11090	Changes in Allowance for Doubtful Accounts - Dwelling Rents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11100	Changes in Allowance for Doubtful Accounts - Other	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11170	Administrative Fee Equity	\$ -	\$ -	\$ (80,863)	\$ -	\$ (80,863)	\$ -	\$ (80,863)
11180	Housing Assistance Payments Equity	\$ -	\$ -	\$ 136,874	\$ -	\$ 136,874	\$ -	\$ 136,874
11190	Unit Months Available	\$ 2,688	\$ 456	\$ 2,136	\$ -	\$ 5,280	\$ -	\$ 5,280
11210	Number of Unit Months Leased	\$ 2,482	\$ 443	\$ 1,421	\$ -	\$ 4,346	\$ -	\$ 4,346
11270	Excess Cash	\$ 900,257	\$ -	\$ -	\$ -	\$ 900,257	\$ -	\$ 900,257
11610	Land Purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11620	Building Purchases	\$ 302,980	\$ -	\$ -	\$ -	\$ 302,980	\$ -	\$ 302,980
11630	Furniture & Equipment - Dwelling Purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11640	Furniture & Equipment - Administrative Purchases	\$ 20,247	\$ -	\$ -	\$ -	\$ 20,247	\$ -	\$ 20,247
11650	Leasehold Improvements Purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11660	Infrastructure Purchases	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13510	CFPP Debt Service Payments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
13901	Replacement Housing Factor Funds	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



## Independent Auditors' Report on Other Supplementary Information

To the Board of Commissioners  
Housing Authority of the City of Hugo  
Hugo, Oklahoma

We have audited the statement of net assets of the Housing Authority of the City of Hugo (the "Authority") as of December 31, 2011, and the related statements of revenues, expenses and changes in net assets, and cash flows for the year then ended and have issued our report thereon dated August 23, 2012, which appears on page 6 and page 7. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on page 25 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information is the responsibility of the Authority's management and was derived from and relates 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 taken as a whole.

August 23, 2012

**HOUSING AUTHORITY OF THE CITY OF HUGO  
 STATEMENT AND CERTIFICATION OF ACTUAL MODERNIZATION COST  
 CERTIFICATE PROJECT NUMBER OK56P04450109  
 DECEMBER 31, 2011**

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1. The actual development cost of the project is as follows:

	<b>Classification</b>	<b>OK56P04450109</b>
1406	Operations	\$ 15,745
1430	Fees and costs	29,570
1460	Dwelling structures	<u>279,955</u>
		<u>\$ 325,270</u>

2. The distribution of costs by major cost accounts as shown above and the actual modernization cost certificate submitted to HUD on April 2, 2012 are in agreement with the Authority's records.
3. All modernization costs and related liabilities have been paid.
4. The Authority had no budget overruns.

Funds approved	\$ 325,270
Funds advanced	( <u>325,270</u> )
Excess of funds approved	<u>\$ -</u>
Funds advanced	\$ 325,270
Funds expended	( <u>325,270</u> )
Excess of funds advanced	<u>\$ -</u>

**OTHER REPORTS AND SCHEDULES IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS*  
AND OMB CIRCULAR A-133**



## **Independent Auditors' 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 Board of Commissioners  
Housing Authority of the City of Hugo  
Hugo, Oklahoma

We have audited the financial statements of the Housing Authority of the City of Hugo (the "Authority") as of and for the year ended December 31, 2011, and have issued our report thereon dated August 23, 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**

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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

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

However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs at item 11-01 that we consider to be significant deficiencies in internal control over financial reporting. 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.

**COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Authority'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as item 11-01.

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

This report is intended solely for the information and use of the Board of Commissioners, management, the U.S. Department of Housing and Urban Development and the U.S. Department of Agriculture, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Santan Fochrem Ho". The signature is written in a cursive style with a large, looping initial "S".

August 23, 2012



**Independent Auditors' 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 Board of Commissioners  
Housing Authority of the City of Hugo  
Hugo, Oklahoma

**COMPLIANCE**

We have audited the compliance of Housing Authority of the City of Hugo (the "Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Authority's major federal programs for the year ended December 31, 2011. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority'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 the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

As described in item 11-01 in the accompanying schedule of findings and questioned costs, the Authority did not comply with the requirements regarding Special Tests that are applicable to its Rural Rental housing program. Compliance with such requirements is necessary, in our opinion, for the Authority to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Authority 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 December 31, 2011.

### INTERNAL CONTROL OVER COMPLIANCE

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as item 11-01. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of the Board of Commissioners, management, the U.S. Department of Agriculture, and the U.S. Department of Housing and Urban Development and is not intended to be and should not be used by anyone other than these specified parties.



August 23, 2012

# HOUSING AUTHORITY OF THE CITY OF HUGO

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

*Year Ended December 31, 2011*

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### PART I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of independent auditors' report issued: **Unqualified**

Internal control over financial reporting:

Material weakness identified? **No**

Significant deficiency identified not considered to be material weakness? **Yes**

Noncompliance material to financial statements noted? **Yes**

#### Federal Awards

Internal control over major programs:

Material weakness identified? **No**

Significant deficiency identified not considered to be material weakness? **Yes**

Type of independent auditors' report issued on compliance with requirements applicable to major federal programs: **Qualified**

Any audit findings disclosed that are required to be reported in accordance with Circular A-133 (Section .510(a))? **Yes**

#### Identification of Major Federal Programs or Clusters

#### CFDA Number

##### Rural Rental Cluster

Rural Rental Assistance Payments

10.427

Rural Rental Housing Loans

10.415

Low Rent Public Housing

14.850

Dollar threshold used to distinguish between Type A and Type B programs:

**\$300,000**

Auditee qualified as low-risk auditee? **No**

# HOUSING AUTHORITY OF THE CITY OF HUGO

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

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*Year Ended December 31, 2011*

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### PART II - FINANCIAL STATEMENT FINDINGS

#### **Finding 11-01: Rural Rental housing program, CFDA #s 10.415, 10.427**

*Criteria* – Exhibit 8-2 in RD Handbook HB-2-3560 (the “Handbook”) and 7 CFR 3560.154 provide the criteria for tenant selection from Rural Rental housing program waiting list.

*Condition* – The waiting list for the Rural Rental housing program is not being administered in accordance with the criteria above.

*Cause* – Although the Authority was aware of how the waiting list should be administrated, it did not implement the changes during the year ended December 31, 2011.

*Effect* – In the short-term, improper tenant selections result in the awarding of a housing unit to someone other than the eligible applicant identified in compliance with the criteria above. In the long-term, all eligible applicants eventually obtain a housing unit, only in the improper order.

*Recommendation* – The Handbook should be the primary source document from which the Authority should base its policies and procedures for the Rural Rental housing program. A regular, thorough review of the Handbook may improve other policies and procedures in place. Regarding tenant selection, the Authority should immediately revise its policies and procedures and the existing waiting list in accordance with the Handbook.

*Views of Responsible Officials and Planned Corrective Action* – See Corrective Action Plan on page 32.

### PART III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

#### **Finding 11-01**

See Part II above for explanation.

# HOUSING AUTHORITY OF THE CITY OF HUGO

## CORRECTIVE ACTION PLAN (UNAUDITED)

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*Year Ended December 31, 2011*

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### **Finding 11-01 (Tenant Selection)**

The Authority concurs with the recommendation. Effective immediately, revisions to the tenant selection policies and procedures and to the waiting list itself will be made in accordance with the Handbook.

# HOUSING AUTHORITY OF THE CITY OF HUGO

## SCHEDULE OF PRIOR YEAR FINDINGS

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*Year Ended December 31, 2011*

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### **Finding 10-01 (In-Service Fixed Assets)**

The Authority has improved and revised its communication channels among the Authority's maintenance staff and administration and its fee accountant.

### **Finding 10-02 (Cost Allocation)**

Internal controls were improved within the Authority to properly identify and better allocate costs among the grant programs.

### **Finding 10-03 (Tenant Selection)**

Although an attempt was made to properly administer the Rural Rental housing program waiting list, employee turnover delayed proper implementation in accordance with the Handbook through the end of 2011. As such, Finding 10-03 has been renewed and carried over as a finding as 11-01. Beginning January 2012, the Authority hired a management company to manage the finances, waiting list, and other aspects of the Rural Rental housing program.