

FINANCIAL STATEMENTS
AND
AUDITOR'S REPORTS

THE CITY OF HUGO
JUNE 30, 2014

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dwg, inc. Certified Public Accountant and Consultant

Independent Auditor's Report

To the City Council
City of Hugo, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Hugo, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City of Hugo's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant

accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Hugo, Oklahoma, as of June 30, 2014, and the respective changes in financial position, and where applicable, and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental 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. Management has elected not to include a Management's Discussion and Analysis as part of this report, but did include budgetary comparison information. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic 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.

Other Information

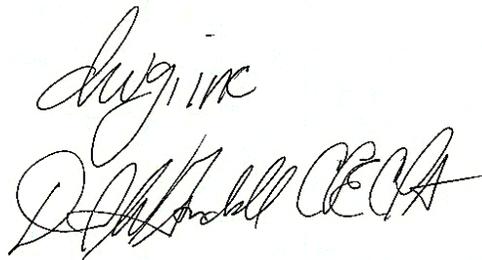
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining proprietary fund statements as required by the grantor agencies and state statute are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic 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 basic financial statements or to the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2015, 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 on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

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
July 6, 2015

**City of Hugo
Statement of Net Position
As of June 30, 2014**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current Assets			
Cash and investments	\$ 374,488	\$ 572,786	\$ 947,274
Cash and investments - restricted	541,739	5,881,774	6,423,512
Accounts receivable		426,709	426,709
Taxes receivable	287,747		287,747
Total current assets	1,203,974	6,881,269	8,085,242
Capital Assets			
Non-depreciable capital assets		34,446	34,446
Depreciable capital assets	5,128,311	22,994,137	28,122,448
Accumulated depreciation	(2,273,529)	(7,610,512)	(9,884,041)
Net capital assets	2,854,782	15,418,071	18,272,853
TOTAL ASSETS	4,058,756	22,299,340	26,358,095
DEFERRED OUTFLOWS OF RESOURCES			
Bond discount		117,568	117,568
LIABILITIES			
Current Liabilities			
Accounts payable	109,571	18,478	128,049
Accrued liabilities	15,625	85,565	101,190
Current portion of long-term debt	182,650	764,854	947,504
Total current liabilities	307,846	868,897	1,176,743
Noncurrent Liabilities			
Meter deposits refundable		218,263	218,263
Long-term debt, less current portion	1,848,540	9,295,655	11,144,195
Total noncurrent liabilities	1,848,540	9,513,918	11,362,458
TOTAL LIABILITIES	2,156,386	10,382,815	12,539,201
DEFERRED INFLOWS OF RESOURCES			
Bond premium		181,833	181,833
NET POSITION			
Invested in capital assets, net of debt	823,592	5,357,562	6,181,154
Restricted for:			
Debt service	(281,853)	5,881,774	5,599,920
Unrestricted	1,360,631	612,924	1,973,555
TOTAL NET POSITION	\$ 1,902,370	\$ 11,852,260	\$ 13,754,629

City of Hugo
Statement of Activities
For the year ended June 30, 2014

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	\$ (550,506)	\$ 185,203			\$ (365,303)		\$ (365,303)
Streets	(484,427)			44,107	(440,320)		(440,320)
Parks & recreation	(290,021)				(290,021)		(290,021)
Police and court	(1,299,936)	131,190		525	(1,168,221)		(1,168,221)
Fire	(827,999)				(827,999)		(827,999)
Cemetery	(161,479)	5,639			(155,840)		(155,840)
Nutrition program	(42,193)				(42,193)		(42,193)
Garage	(1,262)				(1,262)		(1,262)
Total governmental activities	<u>(3,657,823)</u>	322,032		44,632	<u>(3,291,159)</u>		<u>(3,291,159)</u>
Business-type activities:							
Water	(1,778,869)	1,388,783				(390,087)	(390,087)
Sewer	(1,145,277)	361,627		0		(783,650)	(783,650)
Trash	(157,212)	337,484				180,272	180,272
Airport	(248,758)	213,054				(35,704)	(35,704)
Industrial Authority	(3,334)	15,550				12,216	12,216
Other fees and charges	(114,006)	338,333				224,327	224,327
Total business-type activities	<u>(3,447,457)</u>	2,654,831		0		<u>(792,626)</u>	<u>(792,626)</u>
Total all activities	<u>\$ (7,105,280)</u>	<u>\$ 2,976,863</u>		<u>\$ 44,632</u>	<u>\$ (3,291,159)</u>	<u>\$ (792,626)</u>	<u>\$ (4,083,785)</u>
Interest expensed in:							
General government	\$ 60,610				General revenues:		
Streets	39,409				Sales and use taxes		
Water	200,417				Franchise taxes		
Sewer	133,611				Other income (loss)		
Airport	9,327				Transfers		
Total	<u>\$ 443,374</u>				Transfer from other government		
					Total general revenues and transfers		
					Change in net position		
					Net position, beginning		
					Prior period adjustment		
					Net position, ending		
					\$ 1,902,370	\$ 11,852,260	\$ 13,754,629

**City of Hugo
Balance Sheet
Governmental Funds
As of June 30, 2014**

	Major Funds				Total Governmental Funds
	General	Street and Alley	Mount Olive Cemetery	Non-Major	
ASSETS					
Cash and investments	\$ 178,786	\$ 82,057	\$ 71,707	\$ 41,938	\$ 374,488
Cash and investments - restricted	147,911		392,368	1,460	541,739
Taxes receivable	287,747				287,747
TOTAL ASSETS	614,444	82,057	464,075	43,398	1,203,974
LIABILITIES					
Accounts payable	109,571				109,571
Accrued interest	9,417	6,208			15,625
TOTAL LIABILITIES	118,988	6,208		-	125,196
FUND BALANCES					
Unreserved	495,457	75,848	464,074	43,398	1,078,777
TOTAL LIABILITIES AND FUND BALANCES	\$ 614,445	\$ 82,056	\$ 464,074	\$ 43,398	\$ 1,203,973

Reconciliation of general fund balance to the statement of net position of governmental activities:

Fund balance	\$ 1,078,777
Capital assets	5,128,311
Accumulated depreciation	(2,273,529)
Debt	(2,031,190)
Net position of governmental activities	\$ 1,902,370

City of Hugo
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year ended June 30, 2014

	Major Funds				Total Governmental Funds
	General	Street and Alley	Mount Olive Cemetery	Non-Major	
REVENUES					
Taxes	\$ 2,192,562	\$ 475,605	\$ -	\$ -	\$ 2,668,167
Licenses & permits	44,754		161		44,915
Fines & forfeitures	91,304		0	39,886	131,190
Sales and services	140,449		5,478		145,927
Federal and state grants		44,107		525	44,632
Other revenues	157,324	45,524	308	10,029	213,185
Interest	635	75	5,275	47	6,032
Capital financing	0				0
TOTAL REVENUES	2,627,028	565,311	11,222	50,487	3,254,048
EXPENDITURES					
General government	480,992				480,992
Streets		372,476			372,476
Parks & recreation	243,726				243,726
Police and court	1,240,776			30,878	1,271,654
Fire	793,249			2,809	796,058
Cemetery	142,869		12,592		155,461
Nutrition program	42,193				42,193
Garage	1,262				1,262
Debt service	112,703	69,515		861	183,079
Interest expense	60,610	39,409			100,019
Capital outlay	55,879	30,200	20,660	15,400	122,139
Other expense		2,314		3,155	5,469
TOTAL EXPENDITURES	3,174,259	513,914	33,252	53,103	3,774,528
REVENUES OVER (UNDER) EXPENDITURES	(547,231)	51,397	(22,030)	(2,616)	(520,480)
OTHER FINANCING SOURCES (USES)					
Transfer from other government	784,552				784,552
Transfers-in (out)	(1,923,493)	(39,626)		3,468	(1,959,651)
TOTAL OTHER FINANCING SOURCES (USES)	(1,138,941)	(39,626)		3,468	(1,175,099)
NET CHANGE IN FUND BALANCE	(1,686,172)	11,771	(22,030)	852	(1,695,579)
FUND BALANCE, BEGINNING	2,181,629	64,077	486,104	42,546	2,774,356
FUND BALANCE, ENDING	\$ 495,457	\$ 75,848	\$ 464,074	\$ 43,398	\$ 1,078,777

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

Net change in fund balance	\$ (1,695,579)
Principal payments	183,079
Capital asset purchases capitalized	122,137
Funds borrowed, recorded as revenue in the fund financial statements but recorded as long term liability in the government wide financial statements	
Depreciation expense	(188,511)
Change in net position of governmental activities	\$ (1,578,874)

City of Hugo
Statement of Fund Net Position
Proprietary Funds
As of June 30, 2014

ASSETS	
Current Assets	
Unrestricted cash and cash equivalents	\$ 572,786
Utility billing receivables	426,709
Allowance for doubtful accounts	
Due from other funds	
Restricted assets	
Cash and cash equivalents	<u>5,881,774</u>
Total current assets	<u>6,881,269</u>
Noncurrent Assets	
Depreciable capital assets	22,994,137
Accumulated depreciation	(7,610,512)
Construction in progress	<u>34,446</u>
Net capital assets	<u>15,418,071</u>
TOTAL ASSETS	<u>22,299,340</u>
DEFERRED OUTFLOWS OF NET POSITION	
Bond discount	<u>117,568</u>
LIABILITIES	
Current Liabilities	
Accrued interest	85,565
Compensated Absences	18,478
Current portion of long-term debt	<u>764,854</u>
Total current liabilities	868,897
Noncurrent liabilities	
Meter deposits refundable	218,263
Long-term debt, less current portion	<u>9,295,655</u>
Total noncurrent liabilities	<u>9,513,918</u>
TOTAL LIABILITIES	<u>10,382,815</u>
DEFERRED INFLOWS OF NET POSITION	
Bond premium	<u>181,833</u>
NET POSITION	
Invested in capital assets, net of debt	5,357,562
Restricted for:	
Debt service	5,881,774
Unrestricted	<u>612,924</u>
TOTAL NET POSITION	<u>\$ 11,852,260</u>

City of Hugo
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year ended June 30, 2014

OPERATING REVENUES	
Water revenue	\$ 1,388,783
Sewer revenue	361,627
Trash revenue	337,484
Industrial Authority revenue	15,550
Airport revenue	213,054
Sales tax revenue	860,677
Grant revenue	
Interest revenue	1,581
Other fees and charges	219,889
Capital improvement charges	118,444
TOTAL OPERATING REVENUES	<u>3,517,089</u>
OPERATING EXPENSES	
Water	1,146,609
Sewer	723,769
Trash	157,212
Airport	198,462
Industrial Authority	3,334
Interest expense	343,356
Other expense	114,006
TOTAL OPERATING EXPENSES	<u>2,686,749</u>
OPERATING INCOME (LOSS)	830,341
OTHER INCOME (EXPENSE)	
Depreciation expense	<u>(760,711)</u>
TOTAL OTHER INCOME (EXPENSE)	<u>(760,711)</u>
INCOME BEFORE TRANSFERS	69,631
TRANSFERS (OUT)	<u>1,959,651</u>
CHANGE IN NET POSITION	2,029,282
NET POSITION, BEGINNING	<u>9,822,977</u>
NET POSITION, ENDING	<u><u>\$ 11,852,260</u></u>

City of Hugo
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2014

Cash flows from operations:	
Customers	\$ 2,295,761
Tax collections	860,677
Other fees and charges	338,333
Interest	1,581
Cash payments for:	
Salaries	(1,066,214)
Goods and services	(1,267,807)
Interest paid on long-term debt	(328,712)
Net cash provided from operations	<u>833,620</u>
Cash flows from capital financing activities:	
Capital expenditures	(187,355)
Purchase of investments	(2,143,393)
Proceeds from new debt	2,495,150
Long-term debt payments	(394,239)
Net cash from capital financing activities	<u>(229,837)</u>
Interfund transfers	(723,230)
Net cash from non-capital financing	<u>(723,230)</u>
Net increase (decrease) in cash	(119,447)
Beginning cash	692,234
Ending cash	<u>\$ 572,787</u>
Reconciliation of income from operations	
to net cash from operations:	
Operating income (loss)	\$ 69,632
Adjustments to income from operations:	
Net amortization of bond discount and premium	1,780
Depreciation	760,711
Change in assets and liabilities:	
(Increase) decrease in receivables, net	45,153
(Increase) decrease in due from other funds	9,371
(Increase) decrease in prepaid expenses	
Increase (decrease) in accrued interest	16,651
Increase (decrease) in refundable deposits	(69,677)
Net cash provided by operations	<u>\$ 833,620</u>
Restricted cash in certificates of deposit	\$ 100,000
Restricted cash in trust accounts	5,781,774
Total restricted non-current cash	<u>5,881,774</u>
Operating Cash	<u>572,786</u>
Total cash and cash equivalents	<u>\$ 6,454,560</u>

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

1. Summary of Significant Accounting Policies

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, 2014, 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, 2013, 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 position 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 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.

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.

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

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. Cash and cash equivalents restricted for debt service, meter deposits and other long term purposes are excluded from this definition.

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, 2014.

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.

Risk Management

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

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

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.

Receivables and Credit Policies

Accounts receivable consist of amounts due for water and sewer usage. Management determines the allowance for uncollectible amounts based on historic experience, an assessment of economic conditions, and a review of subsequent collections. Accounts receivable are written off when deemed uncollectible. At June 30, 2014, there was no allowance deemed necessary.

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	25 - 50 years
Machinery & equipment	3 - 20 years

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense/expenditure) until then. The City has only one item that qualifies for reporting in this category. It is the original issue discount on the debt refinancing reported in the government-wide statement of net position. The amount is deferred and amortized over the life of the refinanced debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The City has only one type of item that qualifies for reporting in this category. It is the premium on debt refinancing reported in the government-wide statement of net position. The amount is deferred and amortized over the life of the refinanced debt.

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.

**The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014**

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, 2014, 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 \$1,700,000 of securities for the City's accounts. These securities were held in the financial institution's name with a third party correspondent.

3. Property, Plant and Equipment

Governmental Funds

As of June 30, 2014, 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 \$188,511 for the governmental funds was recorded for the following: Fire Department \$29,323; Police Department \$27,745; Street and Alley \$70,228; Mt. Olivet Cemetery \$6,018; Parks \$49,665; and City Hall \$5,531.

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Land	\$ 4,000			\$ 4,000
City Hall	532,300	29,250		561,550
Fire Department	713,133			713,133
Police Department	330,878	15,400		346,278
Street Department	2,276,491	30,200		2,306,691
Mt. Olive Cemetery	109,092	20,660		129,752
Park and Recreation	1,040,280	26,627		1,066,907
Total	5,006,174	122,137	0	5,128,311
Accumulated Depreciation	(2,085,018)	(188,511)		(2,273,529)
Net Fixed Assets	\$ 2,921,156	\$ (188,511)		\$ 2,854,782

Proprietary Funds

As of June 30, 2014, the proprietary funds had \$34,446 in capitalized assets for construction in progress that were not being 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 \$760,711 for the proprietary funds was recorded for the following: Industrial Authority \$8,971; Water Department \$431,845; Sewer Department \$287,897; and Airport \$31,998.

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Municipal Authority	\$ 7,353			\$ 7,353
Sewer & Water	10,345,259	152,910		10,498,169
Water Storage	10,248,848			10,248,848
Water Plant	839,068			839,068
Industrial Authority	256,500			256,500
Airport Authority	1,144,200			1,144,200
Total	22,841,228	152,910	0	22,994,138
Accumulated Depreciation	(6,849,802)	(760,711)		(7,610,513)
Net Fixed Assets	\$ 15,991,426	\$ (760,711)		\$ 15,383,625

4. Long-term Debt

The following is a summary of the City's long-term debt transactions for the year ended June 30, 2014:

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:

The City of Hugo had the following governmental long-term debt obligations outstanding as of June 30, 2014:

	Capital Leases	Notes Payable	Revenue Notes	Total
Debt outstanding beginning of year	\$ 46,166	\$ 153,103	\$ 2,015,000	\$ 2,214,269
New debt issued	-	-	-	
Retirements and repayments	20,856	22,224	140,000	183,080
Debt outstanding end of year	\$ 25,310	\$ 130,879	\$ 1,875,000	\$ 2,031,189

Total interest expense on governmental debt during the year ended June 30, 2014 totaled \$100,019.

Revenue Notes Payable

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 6/30/13	Additions	Principal Payments	Balance 6/30/2014
\$ 1,215,000	-	85,000	\$ 1,130,000

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	55,214	90,000	1,040,000
2016	50,875	95,000	945,000
2017	46,000	100,000	845,000
2018	41,000	105,000	740,000
2019	35,325	110,000	630,000
2020-2024	88,125	630,000	-

BancFirst Note – Streets – General Fund:

Balance 6/30/13	Additions	Principal Payments	Balance 6/30/2014
\$ 800,000	-	55,000	\$ 745,000

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	36,500	60,000	685,000
2016	33,500	60,000	625,000
2017	30,500	65,000	560,000
2018	27,125	70,000	490,000
2019	23,625	70,000	420,000
2020-2024	61,000	420,000	-

Choctaw Electric Note – Rodeo Arena – General Fund

In fiscal year 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:

Balance 6/30/13	Additions	Principal Payments	Balance 6/30/2014
\$ 153,103	-	22,224	\$ 130,879

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	-	22,224	108,655
2016	-	22,224	86,431
2017	-	22,224	64,207
2018	-	22,224	41,983
2019	-	22,224	19,759
2020	-	19,759	-
		130,879	

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

Capital Leases

The City has a governmental capital lease with Caterpillar Financial. This was used to obtain heavy equipment necessary to maintain the streets of the city. A summary of the lease activity is as follows:

Balance 6/30/13	Additions	Principal Payments	Balance 6/30/2014
\$ 18,270	-	14,515	\$ 3,755

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	28	3,755	-

During 2012, the City entered into a capital lease with financing from a local bank for a Drug Abuse Resistance Education (D.A.R.E.) car. A summary of the lease activity is as follows:

Balance 6/30/13	Additions	Principal Payments	Balance 6/30/2014
\$ 8,546	\$ -	\$ 2,999	\$ 5,547

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	124	3,090	2,457
2016	31	2,457	-

During 2013, the City entered into a capital lease to purchase a city vehicle. A summary of the lease activity is as follows:

Balance 6/30/13	Additions	Principal Payments	Balance 6/30/2013
\$ 19,350		3,342	\$ 16,008

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	1,000	3,581	12,427
2016	740	4,677	7,750
2017	249	7,750	0

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

Proprietary Funds:

The Hugo Municipal Authority (HMA) had the following long-term debt obligations outstanding as of June 30, 2014:

Debt outstanding beginning of year	\$ 7,959,598
New debt issued	2,495,150
Retirements and repayments	394,239
Debt outstanding end of year	<u>\$ 10,060,509</u>

Total interest expense on proprietary debt during the year ended June 30, 2013 totaled \$343,356.

Army Corp of Engineers Note 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. A summary of the year's activity and principal and interest required to repay this obligation are as follows:

Balance 6/30/2013	Additions	Principal Payments	Balance 6/30/2014
\$ 42,411	-	3,664	\$ 38,747

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	1,250	3,782	34,965
2016	1,128	3,904	31,061
2017	1,002	4,030	27,031
2018	872	4,160	22,871
2019	738	4,294	18,577
2020-2022	\$ 1,364	\$ 18,577	-

Rural Development Notes Payable

During the year ended June 30, 2013, the City refinanced Rural Development notes payable totaling \$6,522,791 that carried interest rates of 4.25% to 4.5. The notes were refinanced with Oklahoma Water Resources Board State Loan Revenue Bonds, Series 2012B with a par value of \$6,930,000. This refinancing was done for the purpose of reducing the interest costs on the debt and to achieve an economic savings. The collateral of the refinanced debt is the revenue of the system, sales taxes, and the reserve fund of \$457,344 established during the refinancing. Over the life of the bonds, the refinancing will result in a debt service cash flow savings to the City of \$ 1,580,626, a gross debt service present value savings of \$123,141, and a net economic present value benefit of \$363,452 after considering the use of existing debt service funds. The principal balance of the 2012B bonds is \$6,930,000 less original issue discount of \$122,467, plus premium of \$189,410. The City contributed \$70,000 to obtain the refinancing and incurred legal expenses and other bond costs of \$84,056 during 2013. The interest balance of \$3,619,887 is payable semi-annually September 15 and March 15 and commenced on September 15, 2012 with interest rates that vary from .650% to 4.025%. Discount amortization expense of \$1,225 and premium amortization of \$1,894 were recorded in 2014.

The principal and interest on the bonds is payable from system and sale tax revenue.

**The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014**

The following is the summary of debt activity and a schedule of the future minimum principal and interest payments:

Balance		Principal	Balance
6/30/13	Additions	Payments	6/30/2014
\$ 6,875,000		210,000	\$ 6,665,000

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	241,684	210,000	6,455,000
2016	236,584	215,000	6,240,000
2017	231,364	220,000	6,020,000
2018	226,024	225,000	5,795,000
2019	219,414	230,000	5,565,000
2020-2024	951,119	1,300,000	4,265,000
2025-2029	436,579	1,560,000	2,705,000
2030-2034	373,020	1,850,000	855,000
2035-2036	34,716	855,000	

Revenue Notes Payable

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:

Balance		Principal	Balance
6/30/13	Additions	Payments	6/30/2014
\$ 890,000	-	55,000	\$ 835,000

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	41,000	60,000	775,000
2016	38,000	60,000	715,000
2017	35,000	65,000	650,000
2018	31,625	70,000	580,000
2019	28,125	70,000	510,000
2020-2024	82,750	415,000	95,000
2025	3,625	95,000	0

The citizens of Hugo voted to allocate a portion of the sales tax to build a new high school. The funds have been saved in a local bank. Those funds, in addition to a contribution by the local school district, were deposited with a trustee bank. The trustee bank then loaned the high school project \$2,255,000 at 2.24% interest. The payments are made semi-annually in April and October by the trustee bank to the investors. The monthly sales tax collections are deposited with the trustee bank.

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

Debt service for the year ended June 30, 2014 was as listed below:

Balance			Principal	Balance
6/30/13	Additions		Payments	6/30/2014
\$ -	2,255,000		105,000	\$ 2,150,000

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	46,816	240,000	1,910,000
2016	41,384	250,000	1,660,000
2017	18,592	125,000	1,535,000
2018			1,535,000
2019	85,668	260,000	1,275,000
2020	27,104	265,000	1,010,000
2021-2024	46,424	1,010,000	0

The city entered into a short-term loan agreement with a local bank in anticipation of grant funds to upgrade the city's wastewater treatment facility.

The debt service is as listed below:

Balance			Principal	Balance
6/30/13	Additions		Payments	6/30/2014
\$ -	240,150		0	\$ 240,150

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	11,287	240,150	0

Airport Mortgage Note Payable

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 \$1,595. The loan assigns revenue and the property at the airport as collateral for the mortgage.

**The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014**

First United Bank – Hugo Municipal Authority – Airport Mortgage

Balance		Principal	Balance
6/30/13	Additions	Payments	6/30/2014
\$ 152,187	-	20,575	\$ 131,612

Future Debt Service:

	<u>Interest</u>	<u>Principal</u>	<u>Balance</u>
2015	8,217	10,922	120,690
2016	8,543	11,595	109,095
2017	6,828	12,311	96,784
2018	6,069	13,070	83,714
2019	5,263	13,876	69,838
2020-2024	11,947	69,839	-

5. 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, 2014 of \$115,207 was equal to the required contribution for 2014.

Oklahoma Police 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, 2014 was \$96,448, equal to the required contribution for 2014.

The City of Hugo
Notes to the Financial Statements
As of and for the Year Ended June 30, 2014

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 not based on actuarial calculations. The City's contribution for the year ended June 30, 2014 of \$237,360 which was 100% of required contribution for 2014.

6. Accrued Vacation Benefits

The City's personnel policy permits employees to accumulate a limited amount of earned but unused vacation time, which would be paid to employees upon separation from the City's service. A liability of \$120,126 has been recorded representing the City's commitment to fund such costs from future operations.

7. 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 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.

8. 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.(See Note 4 to these financial statements). 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.

9. Subsequent Events

During 2009 the City has adopted FASB ASC 855-10-50, *Subsequent Events*. The standard reflects the principles of current subsequent event accounting guidance and requires disclosure of the date through which subsequent events have been evaluated. Management performed an evaluation of the City's activity through the audit report date, and has concluded that there are no significant subsequent events requiring disclosure through that date.

dwg, inc. Certified Public Accountant and Consultant

**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**

Independent Auditor's Report

The City Council,
The City of Hugo

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Hugo, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Hugo, Oklahoma's basic financial statements, and have issued our report thereon dated July 6, 2015.

Internal Control Over Financial Reporting

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

Our consideration of 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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 have reported on the status of prior year findings that were considered to be material

weaknesses in the schedule of prior year findings. There were not any significant deficiencies that we considered to be material weaknesses for the fiscal year ended June 30, 2014.

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 deficiency described in the accompanying schedule of findings and responses as item 2014-1 to be a significant deficiency.

Compliance and Other Matters

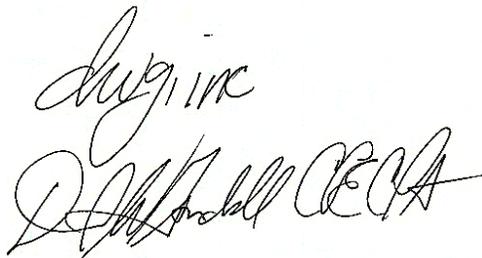
As part of obtaining reasonable assurance about whether The City of Hugo's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

City of Hugo's Response to Findings

The City of Hugo's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Hugo's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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

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
July 6, 2015

SCHEDULE OF FINDINGS AND RESPONSES

Status of Prior year Findings

2013-1

Criteria

The City Council should receive accurate financial statements prepared in accordance with accounting principles generally accepted in the United States.

Condition

The City is not dedicating sufficient resources to properly maintain the financial accounting records of the City's activities. During our audit we noted expenses and revenues that were posted to incorrect general ledger accounts. For instance, the check stub for a \$20,000 grant expense indicated that the expense should be posted to Contract Labor and Services. It was actually posted to the Grant Revenue account. Since this was a grant expenditure for capital improvements, it should have been posted to capital outlay and capitalized as part of the grant project. See also, comment 2011-1 below.

Effect

The City Council and department heads are not being provided accurate financial statements. This compromises budget and actual comparisons and the integrity of financial information for both internal and external purposes. As noted in finding 2011-1 below, this can also place the City in non-compliance with grant compliance standards.

Recommendation

Proper resources should be devoted to maintaining the City's financial accounting records. In addition, department heads should review detailed financial information of their departmental activities on a monthly basis and provide input on necessary corrections.

Management's Response.

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

2013-1 Fiscal Year 2014 Status

The City has transitioned to a cloud based accounting system, which allows the contract CPA to provide timely assistance to the City Treasurer. Financial statements were more accurate than previous years.

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.

Current Status

There was not any significant grant activity during the audit year.

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.

Current Status

The fixed asset schedule reporting has continued to improve. We did not find any fixed asset additions or retirements that were not recorded in audit year.

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.

Current Status

There were no items outstanding for more than a year as of June 30, 2014.

Current Year Finding

2014-1

Criteria

The City Council should receive accurate financial statements prepared in accordance with accounting principles generally accepted in the United States.

Condition

The City is not using deposit funds to offset bad debts in the municipal authority utility accounts.

Effect

The City is not writing off bad or uncollectable utility accounts.

Recommendation

The utility account receivable should be reviewed for uncollectible accounts. The deposit account should be reviewed and the deposits of the uncollectible accounts should be used to offset the debt and the remainder should be written off as an uncollectible account or turned to a professional collection agency.

Management's Response.

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

City of Hugo
Budgetary Statement of Revenue and Expenditures
General Fund
For the year ended June 30, 2014

	Actual	Budget	Dollar Variance	Percentage Variance
Sales Taxes Revenues	\$ 1,291,101	\$ 1,123,268	\$ 167,833	14.94%
Sales Taxes High School	430,337	482,590	(52,253)	-10.83%
Use Tax Revenues	127,354	257,963	(130,609)	-50.63%
Hotel/Motel Tax	58,233	38,899	19,334	49.70%
Cigar & Cigarette Taxes	35,533	40,570	(5,037)	-12.42%
Alcoholic Beverage Tax	73,917	64,605	9,312	14.41%
911 Fees	18,999	24,594	(5,595)	-22.75%
Franchise Taxes	176,088	190,828	(14,740)	-7.72%
Cemetery Plot Sales	17,029	13,772	3,257	23.65%
Grave Opening and Closing	24,305	19,401	4,904	25.28%
Fees and Permits	44,754	25,395	19,359	76.23%
Police Fines and Fees	91,304	78,684	12,620	16.04%
Capital Improvement Fees	59,506	56,346	3,160	5.61%
Interest Revenues	635	2,044	(1,409)	-68.93%
Grant Revenue	-	-	-	-
Other Revenues	142,395	224,019	(81,624)	-36.44%
Contributions	14,929	-	14,929	100.00%
Rentals	20,610	-	20,610	100.00%
Capital Financing	-	-	-	100.00%
Nutrition Reimbursements	71,727	-	71,727	100.00%
Total	2,698,756	2,642,976	55,780	2.11%

General and Administrative

Payroll and Wages	92,904	32,929	59,975	182.13%
Contract Labor and Services	43,639	5,521	38,118	690.42%
Payroll Taxes	21,866	4,502	17,364	385.70%
Benefits	193,771	169,278	24,493	14.47%
Insurance and Bonds	37,424	52,451	(15,027)	-28.65%
Office Expenses	538	1,330	(792)	-59.55%
Accounting and Legal	31,007	13,619	17,388	127.67%
Gas and Oil	3,021	1,862	1,159	62.25%
Repairs and Maintenance	437	1,107	(670)	-60.54%
Supplies and Equipment	16,822	27,947	(11,125)	-39.81%
Telephone and Utilities	14,638	6,339	8,299	130.93%
Travel and Training	401	2,024	(1,623)	-80.19%
Other Expenses	24,522	10,478	14,044	134.04%
Capital Outlay	29,250	6,154	23,096	375.28%
Debt Service - Principal	-	-	-	-
Debt Service - Interest	1,353	-	1,353	-
Total	511,593	335,542	176,051	52.47%

Police Department

Payroll and Wages	791,948	664,867	127,081	19.11%
Contract Labor and Services	-	-	-	-
Payroll Taxes	81,584	87,846	(6,262)	-7.13%
Benefits	222,607	137,398	85,209	62.02%
Insurance and Bonds	330	7	323	4451.72%
Office Expenses	(4,137)	2,555	(6,692)	-261.94%
Accounting and Legal	-	-	-	-
Gas and Oil	36,710	34,263	2,447	7.14%
Repairs and Maintenance	67,881	2,513	65,368	2601.19%
Supplies and Equipment	18,883	7,055	11,828	167.66%
Telephone and Utilities	14,658	16,772	(2,114)	-12.61%
Travel and Training	1,184	836	348	41.66%
Other Expenses	9,131	4,411	4,720	107.02%
Capital Outlay	-	55,000	(55,000)	-100.00%
Total	1,240,779	1,013,522	227,257	22.42%

Fire Department

Payroll and Wages	515,030	434,884	80,146	18.43%
Payroll Taxes	17,118	26,522	(9,404)	-35.46%
Benefits	169,319	131,153	38,166	29.10%
Insurance and Bonds	583	1,384	(801)	-57.89%
Office Expenses	-	1,320	(1,320)	-100.00%
Gas and Oil	3,290	6,028	(2,738)	-45.42%
Repairs and Maintenance	65,796	694	65,103	9387.53%
Supplies and Equipment	8,564	5,666	2,898	51.15%
Telephone and Utilities	12,694	9,864	2,830	28.69%
Travel and Training	-	1,437	(1,437)	-100.00%
Other Expenses	855	51	804	1579.43%
Total	793,249	619,002	174,247	28.15%

City of Hugo
Budgetary Statement of Revenue and Expenditures
General Fund
For the year ended June 30, 2014

	Actual	Budget	Dollar Variance	Percentage Variance
Cemetery				
Payroll and Wages	102,526	92,600	9,926	10.72%
Payroll Taxes	8,854	7,855	999	12.72%
Benefits	17,361	13,970	3,391	24.27%
Insurance and Bonds	100	-	100	
Office Expenses	(1,450)	757	(2,207)	-291.55%
Gas and Oil	3,937	2,737	1,200	43.84%
Repairs and Maintenance	628	1,942	(1,314)	-67.66%
Supplies and Equipment	5,230	3,121	2,109	67.57%
Telephone and Utilities	5,322	5,045	277	5.49%
Travel and Training		142	(142)	-100.00%
Other Expenses	363	416	(53)	-12.74%
Total	142,871	128,585	14,286	11.11%
Nutrition				
Payroll and Wages	90,512	70,423	20,089	28.53%
Payroll Taxes	3,044	3,681	(637)	-17.30%
Benefits	5,004	2,677	2,327	86.93%
Office Expenses		309	(309)	-100.00%
Repairs and Maintenance	995	1,119	(124)	-11.09%
Supplies and Equipment	400	237	163	68.85%
Telephone and Utilities	2,933	4,631	(1,698)	-36.67%
Travel and Training	7,462	8,894	(1,432)	-16.10%
Other Expenses	3,569	3,979	(410)	-10.30%
Total	113,919	95,949	17,970	18.73%
Parks Department				
Payroll and Wages	118,229	99,333	18,896	19.02%
Payroll Taxes	10,004	7,311	2,693	36.83%
Benefits	26,048	13,971	12,077	86.45%
Insurance and Bonds		-	-	
Office Expenses	48	680	(632)	-92.94%
Gas and Oil	7,208	6,688	520	7.78%
Repairs and Maintenance	51,518	4,747	46,771	985.36%
Supplies and Equipment	9,351	19,282	(9,931)	-51.50%
Telephone and Utilities	13,866	17,556	(3,690)	-21.02%
Travel and Training	1,306	-	1,306	
Other Expenses	6,147	6,567	(420)	-6.40%
Capital Outlay	26,627	138,842	(112,215)	-80.82%
Debt Service - Principal	112,703	-	112,703	
Debt Service - Interest	59,255	-	59,255	
Total	442,310	314,975	127,335	40.43%
Garage				
Payroll and Wages		9,993	(9,993)	-100.00%
Payroll Taxes	1,262	1,255	7	0.55%
Repairs and Maintenance		-	-	
Capital Outlay		35,000	(35,000)	-100.00%
Total	1,262	46,249	(44,986.60)	-97.27%
High School				
Capital Outlay	-	449,603	(449,603)	-100.00%

City of Hugo
Budgetary Statement of Revenue and Expenditures
Street and Alley Fund
For the year ended June 30, 2014

	Actual	Budget	Dollar Variance	Percentage Variance
Sales Taxes Revenues	\$ 430,337	\$ 401,464	\$ 28,873	7.19%
Motor Vehicle Taxes	41,261	35,821	5,440	15.19%
Gasoline Taxes	4,007	6,186	(2,179)	-35.22%
Federal and State Grants	44,107	-	-	-
Interest Revenues	75	-	75	-
Grant Revenues	-	-	-	-
Other Revenues	45,524	9,910	35,614	359.37%
Total	565,311	453,381	67,823	14.96%

Street and Alley Expenses

Payroll and Wages	177,964	180,474	(2,510)	-1.39%
Contract Labor and Services	27,020	14,658	12,362	84.34%
Payroll Taxes	14,764	13,381	1,383	10.34%
Benefits	35,061	33,317	1,744	5.23%
Insurance and Bonds	18,826	24,788	(5,962)	-24.05%
Office Expenses	(101)	449	(550)	-122.51%
Accounting and Legal	5,233	6,629	(1,396)	-21.06%
Gas and Oil	19,636	22,464	(2,828)	-12.59%
Repairs and Maintenance	10,157	7,766	2,391	30.79%
Supplies and Equipment	24,824	57,860	(33,036)	-57.10%
Telephone and Utilities	38,126	39,000	(874)	-2.24%
Travel and Training	966	133	833	627.91%
Other Expenses	2,314	643	1,671	260.03%
Capital Outlay	30,200	20,635	9,565	46.36%
Debt Service Principal	69,515	40,273	29,242	72.61%
Debt Service Interest	39,409	-	39,409	-
Total	513,914	462,469	51,445	11.12%

Hugo Municipal Authority
Budgetary Statement of Revenue and Expenditures
For the year ended June 30, 2014

	Actual	Budget	Dollar Variance	Percentage Variance
Sales Taxes Revenues	\$ 860,677	\$ 803,264	\$ 57,413	7.15%
Water Sales	1,358,233	1,297,137	61,096	4.71%
Capital Improvement Fees	118,444	121,138	(2,694)	-2.22%
Late Fees and Reconnects	30,550	24,771	5,779	23.33%
Interest Revenues	1,321	3,094	(1,773)	-57.30%
Other Revenues	192,292	41,853	150,439	359.45%
Sewer Sales	361,627	366,859	(5,232)	-1.43%
Interest Revenues	-	3,000	(3,000)	-100.00%
Other Revenues	2,225	10,417	(8,192)	-78.64%
Grant Revenues	-	76,427	(76,427)	-100.00%
Trash Fees	337,484	335,922	1,562	100.00%
Capital Financing	2,495,150	237,259	2,257,891	100.00%
Total	5,758,003	3,321,141	2,436,862	73.37%

Water Expense

Payroll and Wages	243,360	360,833	(117,473)	-32.56%
Contract Labor and Services	249,397	328,962	(79,565)	-24.19%
Payroll Taxes	28,601	21,615	6,986	32.32%
Benefits	33,143	21,946	11,197	51.02%
Insurance and Bonds	21,845	51,208	(29,363)	-57.34%
Office Expenses	10,347	10,906	(559)	-5.13%
Accounting and Legal	206,758	86,690	120,068	138.50%
Gas and Oil	10,241	14,669	(4,428)	-30.19%
Repairs and Maintenance	150,224	15,129	135,095	892.95%
Supplies and Equipment	75,765	208,431	(132,666)	-63.65%
Telephone and Utilities	115,439	134,560	(19,121)	-14.21%
Travel and Training	1,490	2,572	(1,082)	-42.07%
Bad Debts	0	-	-	
Other Expenses	40,976	25,581	15,395	60.18%
Capital Outlay	84,427	251,547	(167,120)	100.00%
Debt Service Principal	382,362	231,240	151,122	65.35%
Debt Service Interest	200,417	31,125	169,292	543.91%
Total	1,854,792	1,797,014	57,778	3.22%

Sewer Expenses

Payroll and Wages	164,240	232	164,008	70693.10%
Contract Labor and Services	279,332	58,412	220,920	378.21%
Payroll Taxes	1,604	831	773	93.02%
Benefits	29,448	21,946	7,502	34.18%
Insurance and Bonds	6,086	-	6,086	
Office Expenses	3,539	2,906	633	21.78%
Accounting and Legal	59,500	17,653	41,847	237.05%
Gas and Oil	7,366	20,397	(13,031)	-63.89%
Repairs and Maintenance	11,888	94,381	(82,493)	-87.40%
Supplies and Equipment	52,674	30,197	22,477	74.43%
Telephone and Utilities	108,091	119,586	(11,495)	-9.61%
Travel and Training	-	220	(220)	-100.00%
Other Expenses	8,235	18,780	(10,545)	-56.15%
Capital Outlay	102,927	203,617	(100,690)	-49.45%
Debt Service - Principal	1,589	279,108	(277,519)	-99.43%
Debt Service Interest	133,611	-	133,611	
Total	970,130	868,266	101,864	11.73%

Sanitation

Trash Contract Fees	157,212	150,000	7,212	4.81%
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City of Hugo
COMBINING STATEMENT OF FUND NET POSITION
Proprietary funds
As of June 30, 2014

	HMA	HIA	HMAARPT	HMAFixedAsset and Debt	TOTAL
ASSETS					
Unrestricted cash and cash equivalents	\$ 432,875	\$ 52,684	\$ 87,227		\$ 572,786
Utility billing receivables	426,709				426,709
Allowance for doubtful accounts					
Restricted:					
Cash and cash equivalents	134,913				134,913
Bond trust accounts	5,646,861				5,646,861
Certificates of deposit	100,000				100,000
Due from other funds					
Depreciable capital assets				22,994,137	22,994,137
Accumulated depreciation				(7,610,512)	(7,610,512)
Construction in progress				34,446	34,446
Net capital assets				15,418,071	15,418,071
Total Assets	6,741,358	52,684	87,227	15,418,071	22,299,340
DEFERRED OUTFLOWS OF NET POSITION					
Bond discount	117,568				117,568
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accrued interest	85,090		475		85,565
Compensated Absences	18,478				18,478
Current portion of long-term debt				764,854	764,854
Total current liabilities	103,568			764,854	868,897
Meter deposits refundable	218,263				218,263
Long-term debt, less current portion				9,295,655	9,295,655
Total noncurrent liabilities	218,263			9,295,655	9,513,918
Total liabilities	321,831			10,060,509	10,382,815
DEFERRED INFLOWS OF NET POSITION					
Bond premium	181,833				181,833
Invested in capital assets, net of debt				5,357,562	5,357,562
Restricted for:					
Debt service	5,881,774				5,881,774
Unrestricted	473,488	52,684	86,752		612,924
Total net position	\$ 6,355,262	\$ 52,684	\$ 87,227	\$ 5,357,562	\$ 11,852,260

City of Hugo
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
Proprietary Funds
For the year ended June 30, 2014

	HMA	HIA	HMAARPT	HMAFixedAsset and Debt	TOTAL
Operating revenues:					
Water revenue	\$ 1,388,783				\$ 1,388,783
Sewer revenue	361,627				361,627
Trash revenue	337,484				337,484
Rental revenue		15,550	32,826		48,376
Airport revenue			180,228		180,228
Sales tax revenue	860,677				860,677
Grant revenue	-				-
Other fees and charges	194,517	11,489	13,883		219,889
Interest revenue	1,321	208	52		1,581
Capital improvement charges	118,444				118,444
Capital financing	2,495,150			(2,495,150)	-
Total Revenues	5,758,003	27,247	226,989	(2,495,150)	3,517,089
Operating expenses:					
Water	1,146,609				1,146,609
Sewer	723,769				723,769
Trash	157,212				157,212
Personal services		396	37,485		37,881
Material and supplies		854	139,974		140,828
Other goods and services		2,084	21,003		23,087
Other expenses	49,210	24,070	40,726		114,006
Debt Service Interest	334,029		9,327		343,356
Total operating expenses	2,410,829	27,404	248,515	-	2,686,749
Excess operating revenue (deficit)	3,347,174	(157)	(21,526)	(2,495,150)	830,341
Debt Service Principal	(383,952)		(10,287)	394,239	-
Capital Outlay	(187,355)			187,355	-
Depreciation Expense				(760,711)	(760,711)
Total other income (expense)	(571,307)	0	(10,287)	(179,117)	(760,711)
Income before transfers	2,775,867	(157)	(31,812)	(2,674,266)	69,632
TRANSFERS (OUT)	2,014,459	(38,344)	(16,464)	-	1,959,651
CHANGES IN NET POSITION	4,790,326	(38,501)	(48,276)	(2,674,266)	2,029,283
TOTAL NET POSITION, BEGINNING	1,564,936	91,185	135,028	8,031,828	9,822,977
Prior period adjustments				-	-
TOTAL NET POSITION ENDING	\$ 6,355,262	\$ 52,684	\$ 86,752	\$ 5,357,562	\$ 11,852,260