

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS**

**TOWN OF HYDRO, OKLAHOMA
JUNE 30, 2011**

**TOWN OF HYDRO, OKLAHOMA
JUNE 30, 2011**

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JUNE 30, 2011**

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TOWN OF HYDRO, OKLAHOMA

TOWN OFFICIALS

June 30, 2011

Board of Trustees

Mayor

Bill Glasscock

Councilman

Randy Sweeney

Councilman

Dwight Slagell

Town Treasurer and Clerk

Joanna Slagell



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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Town Council
Town of Hydro, Oklahoma

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 Town of Hydro, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Hydro, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, Town of Hydro, Oklahoma, prepares its financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position--modified cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hydro, Oklahoma, as of June 30, 2011, and the respective changes in financial position--modified cash basis, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2011, on our consideration of Town of Hydro, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Town of Hydro, Oklahoma has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hydro, Oklahoma's basic financial statements as a whole. The combining and individual nonmajor fund financial statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements as listed in the accompanying table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL & MILLER
Certified Public Accountants

Weatherford, Oklahoma
September 30, 2011

BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE
OF
TOWN OF HYDRO, OKLAHOMA

Town of Hydro, Oklahoma
Statement of Net Assets
Modified Cash Basis
As of June 30, 2011

<u>ASSETS</u>	Primary Government		
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Cash and Investments	\$ 478,836.50	\$ 28,375.08	\$ 507,211.58
Total Assets	<u>\$ 478,836.50</u>	<u>\$ 28,375.08</u>	<u>\$ 507,211.58</u>
<u>LIABILITIES</u>			
Deposit Liability	\$ 0.00	\$ 0.00	\$ 0.00
Due to Other Funds	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
Total Liabilities	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<u>NET ASSETS</u>			
Restricted For:			
Streets and Alleys	105,158.73		105,158.73
Fire Equipment	40,750.18		40,750.18
Penalty Assessment	216.03		216.03
Grants	0.00		0.00
Depot	2,729.08		2,729.08
EMS	7,010.60		7,010.60
Unrestricted		28,375.08	28,375.08
Unassigned	<u>322,971.88</u>		<u>322,971.88</u>
Total Net Assets	<u>478,836.50</u>	<u>28,375.08</u>	<u>507,211.58</u>
Total Liabilities and Net Assets	<u>\$ 478,836.50</u>	<u>\$ 28,375.08</u>	<u>\$ 507,211.58</u>

See accompanying notes to the basic financial statements.

Town of Hydro, Oklahoma
Statement of Activities
Modified Cash Basis
For the Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 82,759.77	\$ 5,452.00	\$ 0.00	\$ 0.00	\$ (77,307.77)	\$ 0.00	\$ (77,307.77)
Water Department	100,814.23	161,245.07	0.00	0.00	60,430.84	0.00	60,430.84
Sanitation Department	75,754.84	96,650.23	0.00	0.00	20,895.39	0.00	20,895.39
Police Department	123,206.49	7,057.00	0.00	0.00	(116,149.49)	0.00	(116,149.49)
Fire Department	79,789.17	10,916.00	4,397.72	2,625.00	(61,850.45)	0.00	(61,850.45)
Ambulance	6,810.97	20,040.00	0.00	0.00	13,229.03	0.00	13,229.03
Animal Control	0.00	278.00	0.00	0.00	278.00	0.00	278.00
Community Building	2,165.16	1,960.00	0.00	0.00	(205.16)	0.00	(205.16)
Parks Department	10,818.13	0.00	0.00	0.00	(10,818.13)	0.00	(10,818.13)
Swimming Pool	15,032.96	4,578.00	0.00	0.00	(10,454.96)	0.00	(10,454.96)
Library	12,845.57	0.00	0.00	0.00	(12,845.57)	0.00	(12,845.57)
Street & Alley	47,265.76	9,307.52	0.00	0.00	(37,958.24)	0.00	(37,958.24)
Total Governmental Activities	557,263.05	317,483.82	4,397.72	2,625.00	(232,756.51)	0.00	(232,756.51)
Business-Type Activities:							
Sewer	445,211.28	97,944.41	0.00	0.00	0.00	(347,266.87)	(347,266.87)
Total Business-Type Activities	445,211.28	97,944.41	0.00	0.00	0.00	(347,266.87)	(347,266.87)
Total Activities	1,002,474.33	415,428.23	4,397.72	2,625.00	(232,756.51)	(347,266.87)	(580,023.38)
General Revenues:							
Taxes:							
Sales Tax					206,549.30	0.00	206,549.30
Use Tax					21,993.45	0.00	21,993.45
Franchise Tax					25,395.69	0.00	25,395.69
Alcoholic Beverage Tax					8,896.77	0.00	8,896.77
Interest					3,791.82	0.00	3,791.82
Donations					10,438.00	0.00	10,438.00
Royalty Income					0.00	0.00	0.00
Miscellaneous					16,861.62	0.00	16,861.62
Proceeds from Long-Term Debt					0.00	45,058.98	45,058.98
Transfers In (Out)					(99,550.00)	99,550.00	0.00
Total General Revenues and Transfers					194,376.65	144,608.98	338,985.63
Change in Net Assets					(38,379.86)	(202,657.89)	(241,037.75)
Prior period adjustment					0.00	0.00	0.00
Net Assets - Beginning of Year (Restated)					517,216.36	231,032.97	748,249.33
Net Assets - End of Year					\$ 478,836.50	\$ 28,375.08	\$ 507,211.58

See accompanying notes to the basic financial statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS
OF
TOWN OF HYDRO, OKLAHOMA

Town of Hydro, Oklahoma
 Combined Balance Sheet
 Modified Cash Basis
 Governmental Funds
 June 30, 2011

<u>ASSETS</u>	<u>General Fund</u>	<u>Street and Alley Fund</u>	<u>Fire Equipment Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and Investments	\$ 322,971.88	\$ 105,158.73	\$ 40,750.18	\$ 9,955.71	\$ 478,836.50
Total Assets	<u>\$ 322,971.88</u>	<u>\$ 105,158.73</u>	<u>\$ 40,750.18</u>	<u>\$ 9,955.71</u>	<u>\$ 478,836.50</u>
<u>LIABILITIES</u>					
Due to Other Funds	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Total Liabilities	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
<u>FUND BALANCES</u>					
Restricted For:					
Streets and Alleys		105,158.73			105,158.73
Fire Equipment			40,750.18		40,750.18
Penalty Assessment				216.03	216.03
Grants				0.00	0.00
Depot				2,729.08	2,729.08
EMS				7,010.60	7,010.60
Unassigned:	<u>322,971.88</u>				<u>322,971.88</u>
Total Fund Balances	<u>322,971.88</u>	<u>105,158.73</u>	<u>40,750.18</u>	<u>9,955.71</u>	<u>478,836.50</u>
Total Liabilities and Fund Balances	<u>\$ 322,971.88</u>	<u>\$ 105,158.73</u>	<u>\$ 40,750.18</u>	<u>\$ 9,955.71</u>	<u>\$ 478,836.50</u>

See accompanying notes to the basic financial statements.

Town of Hydro, Oklahoma
Statement of Revenues, Expenditures, and Changes in Fund Balances
Modified Cash Basis
Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Street and Alley Fund	Fire Equipment Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues:</u>					
Sales Tax	\$ 190,466.33	\$ 0.00	\$ 6,687.89	\$ 9,395.08	\$ 206,549.30
Use Tax	21,993.45	0.00	0.00	0.00	21,993.45
Water	159,886.22	0.00	0.00	0.00	159,886.22
Garbage	96,650.23	0.00	0.00	0.00	96,650.23
Surcharges	36,408.00	0.00	0.00	0.00	36,408.00
Interest	2,857.39	915.51	0.00	18.92	3,791.82
Alcohol Beverage Tax	8,896.77	0.00	0.00	0.00	8,896.77
Franchise Tax	25,395.69	0.00	0.00	0.00	25,395.69
Miscellaneous	16,211.62	0.00	650.00	0.00	16,861.62
Dog Pound Fees	278.00	0.00	0.00	0.00	278.00
Fees and Penalties	1,358.85	0.00	0.00	0.00	1,358.85
Police Fines	5,917.00	0.00	0.00	1,140.00	7,057.00
Gasoline Tax	0.00	1,844.30	0.00	0.00	1,844.30
Commercial Vehicle Tax	0.00	7,463.22	0.00	0.00	7,463.22
Donations	0.00	0.00	10,438.00	0.00	10,438.00
Oil and Gas Income	0.00	0.00	0.00	0.00	0.00
Rental Income	1,960.00	0.00	0.00	0.00	1,960.00
Swimming Pool Admissions	4,578.00	0.00	0.00	0.00	4,578.00
Proceeds from Sale of Property	0.00	0.00	0.00	0.00	0.00
State Funding Revenue	0.00	0.00	4,397.72	0.00	4,397.72
FEMA Assistance to Firefighters Grant	0.00	0.00	0.00	0.00	0.00
Dept of Emergency Mgt. - Public Assist.	0.00	0.00	2,625.00	0.00	2,625.00
Total Revenues	572,857.55	10,223.03	24,798.61	10,554.00	618,433.19
<u>Expenditures:</u>					
Street & Alley	0.00	1,030.68	0.00	0.00	1,030.68
Personal Services	256,927.40	0.00	0.00	6,810.97	263,738.37
Maintenance & Operations	250,455.77	0.00	7,267.33	1,152.58	258,875.68
Capital Outlay	1,858.00	0.00	19,627.00	0.00	21,485.00
Repayment of ASCOG REAP Grant	0.00	0.00	0.00	12,133.32	12,133.32
Total Expenditures	509,241.17	1,030.68	26,894.33	20,096.87	557,263.05
Excess of Revenues Over (Under) Expenditures	63,616.38	9,192.35	(2,095.72)	(9,542.87)	61,170.14
<u>Other Financing Sources (Uses)</u>					
Operating Transfers In	0.00	0.00	0.00	0.00	0.00
Operating Transfers Out	(95,000.00)	0.00	0.00	(4,550.00)	(99,550.00)
Proceeds of Long-Term Debt	0.00	0.00	0.00	0.00	0.00
Reduction of Long-Term Debt	0.00	0.00	0.00	0.00	0.00
Net Other Financing Sources (Uses)	(95,000.00)	0.00	0.00	(4,550.00)	(99,550.00)
Net Change in Fund Balances	(31,383.62)	9,192.35	(2,095.72)	(14,092.87)	(38,379.86)
Fund Balance, Beginning of Year (Restated)	354,355.50	95,966.38	42,845.90	24,048.58	517,216.36
Adjustments to Prior Year Warrants	0.00	0.00	0.00	0.00	0.00
Fund Balance, End of Year	\$ 322,971.88	\$ 105,158.73	\$ 40,750.18	\$ 9,955.71	\$ 478,836.50

See accompanying notes to the basic financial statements.

Town of Hydro, Oklahoma
 Budgetary Comparison Schedule
 Budgetary Basis
 General Fund
 For the Year Ended June 30, 2011

Revenues	Budgeted Amounts		Actual Amounts	Variance With Final Budget Favorable (Unfavorable)
	Original	Final		
Sales Tax	\$ 142,557.50	\$ 142,557.50	\$ 190,466.33	\$ 47,908.83
Use Tax	11,686.63	11,686.63	21,993.45	10,306.82
Water	132,272.15	132,272.15	159,886.22	27,614.07
Garbage	85,944.23	85,944.23	96,650.23	10,706.00
Surcharges	31,909.73	31,909.73	36,408.00	4,498.27
Fees and Penalties	1,566.45	1,566.45	1,358.85	(207.60)
Interest	0.00	0.00	2,857.39	2,857.39
Alcohol Beverage Tax	7,731.82	7,731.82	8,896.77	1,164.95
Franchise Tax	20,491.63	20,491.63	25,395.69	4,904.06
Miscellaneous	0.00	0.00	16,211.62	16,211.62
Dog Pound Fees	0.00	0.00	278.00	278.00
Police Fines	4,956.30	4,956.30	5,917.00	960.70
Donations	0.00	0.00	0.00	0.00
Oil and Gas Income	0.00	0.00	0.00	0.00
Rental Income	0.00	0.00	1,960.00	1,960.00
Swimming Pool Admissions	0.00	0.00	4,578.00	4,578.00
Total Revenues	439,116.44	439,116.44	572,857.55	133,741.11
<u>Expenditures</u>				
Personal Services	275,000.00	275,000.00	254,902.16	20,097.84
Maintenance and Operations	298,079.32	298,079.32	257,787.93	40,291.39
Capital Outlay	75,000.00	75,000.00	20,327.00	54,673.00
Total Expenditures	648,079.32	648,079.32	533,017.09	115,062.23
Excess Revenues Over (Under) Total Expenditures	(208,962.88)	(208,962.88)	39,840.46	248,803.34
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0.00	0.00	0.00	0.00
Operating Transfers Out	(75,000.00)	(75,000.00)	(95,000.00)	(20,000.00)
Adjustments to Prior Year Warrants Outstanding	0.00	0.00	0.00	0.00
Net Other Financing Sources (Uses)	(75,000.00)	(75,000.00)	(95,000.00)	(20,000.00)
Excess of Revenues and Other Sources over Expenditures and Other Uses	(283,962.88)	(283,962.88)	(55,159.54)	228,803.34
Budgetary Fund Balance, Beginning	283,962.88	283,962.88	283,962.88	0.00
Budgetary Fund Balance, Ending	\$ 0.00	\$ 0.00	228,803.34	\$ 228,803.34
Adjustments to Conform with Modified Cash Basis:				
Revenue Accruals			0.00	
Expenditure Accruals			94,168.54	
Fund Balance, End of Year (Modified Cash Basis)			\$ 322,971.88	

See accompanying notes to the basic financial statements.

Town of Hydro, Oklahoma
 Budgetary Comparison Schedule
 Budgetary Basis
 Street and Alley Fund
 For the Year Ended June 30, 2011

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Interest	\$ 0.00	\$ 0.00	\$ 915.51	\$ 915.51
Gasoline Tax	0.00	0.00	1,844.30	1,844.30
Commercial Vehicle Tax	0.00	0.00	7,463.22	7,463.22
Total Revenues	0.00	0.00	10,223.03	10,223.03
<u>Expenditures</u>				
Street and Alley	95,966.38	95,966.38	1,030.68	94,935.70
Total Expenditures	95,966.38	95,966.38	1,030.68	94,935.70
Excess Revenues Over (Under) Total Expenditures	(95,966.38)	(95,966.38)	9,192.35	105,158.73
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0.00	0.00	0.00	0.00
Operating Transfers Out	0.00	0.00	0.00	0.00
Proceeds of Long-Term Debt	0.00	0.00	0.00	0.00
Reduction of Long-Term Debt	0.00	0.00	0.00	0.00
Net Other Financing Sources (Uses)	0.00	0.00	0.00	0.00
Excess of Revenues and Other Sources over Expenditures and Other Uses	(95,966.38)	(95,966.38)	9,192.35	105,158.73
Budgetary Fund Balance, Beginning	95,966.38	95,966.38	95,966.38	0.00
Budgetary Fund Balance, Ending	\$ 0.00	\$ 0.00	\$ 105,158.73	\$ 105,158.73

See accompanying notes to the basic financial statements.

Town of Hydro, Oklahoma
 Budgetary Comparison Schedule
 Budgetary Basis
 Fire Equipment Fund
 For the Year Ended June 30, 2011

<u>Revenues</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Interest	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Sales Tax	0.00	0.00	6,687.89	6,687.89
Miscellaneous	0.00	0.00	650.00	650.00
Donations	0.00	0.00	10,438.00	10,438.00
Proceeds from Sale of Property	0.00	0.00	0.00	0.00
State Funding Revenue	0.00	0.00	4,397.72	4,397.72
FEMA Assistance to Firefighters Grant	0.00	0.00	0.00	0.00
Dept of Emergency Mgt. - Public Assistance (0.00	0.00	2,625.00	2,625.00
Total Revenues	0.00	0.00	24,798.61	24,798.61
<u>Expenditures</u>				
Maintenance and Operations	12,845.90	12,845.90	7,267.33	5,578.57
Capital Outlay	30,000.00	30,000.00	19,627.00	10,373.00
Total Expenditures	42,845.90	42,845.90	26,894.33	15,951.57
Excess Revenues Over (Under) Total Expenditures	<u>(42,845.90)</u>	<u>(42,845.90)</u>	<u>(2,095.72)</u>	<u>40,750.18</u>
<u>Other Financing Sources (Uses)</u>				
Operating Transfers In	0.00	0.00	0.00	0.00
Operating Transfers Out	0.00	0.00	0.00	0.00
Net Other Financing Sources (Uses)	0.00	0.00	0.00	0.00
Excess of Revenues and Other Sources over Expenditures and Other Uses	(42,845.90)	(42,845.90)	(2,095.72)	40,750.18
Budgetary Fund Balance, Beginning	42,845.90	42,845.90	42,845.90	0.00
Budgetary Fund Balance, Ending	\$ 0.00	\$ 0.00	\$ 40,750.18	\$ 40,750.18

See accompanying notes to the basic financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS
OF
TOWN OF HYDRO, OKLAHOMA

Town of Hydro, Oklahoma
Statement of Net Assets
Modified Cash Basis
Proprietary Funds
As of June 30, 2011

<u>ASSETS</u>	<u>Hydro Development Authority</u>
Cash and Investments	\$ 28,375.08
Restricted Cash and Investments	<u>0.00</u>
Total Assets	<u>\$ 28,375.08</u>
<u>LIABILITIES</u>	
Deposit Liability	\$ 0.00
Due to Other Funds	<u>0.00</u>
Total Liabilities	<u>0.00</u>
<u>NET ASSETS</u>	
Restricted	0.00
Unrestricted	<u>28,375.08</u>
Total Net Assets	<u>28,375.08</u>
Total Liabilities and Net Assets	<u>\$ 28,375.08</u>

See accompanying notes to the basic financial statements.

Town of Hydro, Oklahoma
Statement of Revenues, Expenses, and Changes in Net Assets
Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Hydro Development Authority</u>
Operating Revenues:	
Sewer Fees	\$ 97,944.41
Miscellaneous Revenue	0.00
Total Operating Revenues	<u>97,944.41</u>
Operating Expenses:	
Personal Services	0.00
Maintenance and Operations	21,209.93
Total Operating Expenses	<u>21,209.93</u>
Operating Income (Loss)	<u>76,734.48</u>
Non-Operating Revenues (Expenses):	
Interest Revenue	0.00
Repayment of ASCOG REAP Grant	(31,572.12)
Miscellaneous	0.00
Proceeds from Long-Term Debt	45,058.98
Debt Service:	
Principal Retirement	(423.43)
Interest Expense and Fees	(11,907.32)
Capital Outlay	<u>(380,098.48)</u>
Total Non-Operating Revenues (Expenses)	<u>(378,942.37)</u>
Income (Loss) before Operating Transfers	<u>(302,207.89)</u>
Operating Transfers:	
Operating Transfers In	99,550.00
Operating Transfers Out	0.00
Total Operating Transfers	<u>99,550.00</u>
Net Income (Loss)	(202,657.89)
Net Assets - Beginning of Year (Restated)	231,032.97
Prior Period Adjustments	<u>0.00</u>
Net Assets - End of Year	<u><u>\$ 28,375.08</u></u>

See accompanying notes to the basic financial statements.

Town of Hydro, Oklahoma
Statement of Cash Flows
Modified Cash Basis
Proprietary Funds
For the Year Ended June 30, 2011

	<u>Hydro Development Authority</u>
Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 97,944.41
Cash Received from Miscellaneous	0.00
Cash Paid For Operations	<u>(21,209.93)</u>
Net Cash Provided From Operations	<u>76,734.48</u>
Cash Flows From Investing Activities:	
Interest and Dividends	<u>0.00</u>
Net Cash Flows From Investing Activities	<u>0.00</u>
Cash Flows From Noncapital Financing Activities:	
Proceeds from Loans	0.00
Payments on Loans	0.00
Interest Expense and Fees	0.00
Transfers In From Other Funds	<u>0.00</u>
Net Cash Flows From Noncapital Financing Activities	<u>0.00</u>
Cash Flows From Capital and Related Financing Activities:	
Proceeds from Loans	45,058.98
Payments on Loans	(423.43)
Interest Expense and Fees	(11,907.32)
Acquisition of Capital Assets	(380,098.48)
Repayment of ASCOG REAP Grant	(31,572.12)
Transfers In From Other Funds	99,550.00
Transfers Out to Other Funds	<u>0.00</u>
Net Cash Flows From Capital and Related Financing Activities	<u>(279,392.37)</u>
Net Increase (Decrease) in Cash	(202,657.89)
Cash at Beginning of Year	<u>231,032.97</u>
Cash at End of Year	<u>\$ 28,375.08</u>
Reconciliation of Operating Income (Loss) to	
Net Cash Provided from Operations:	
Operating Income	\$ 76,734.48
Adjustments to Reconcile Operating Income to	
Net Cash Provided from Operations:	
Change in Assets and Liabilities:	
Deposit Liability	<u>0.00</u>
Net Cash Provided From Operations	<u>\$ 76,734.48</u>

See accompanying notes to the basic financial statements.

FIDUCIARY FUND FINANCIAL STATEMENTS
OF
TOWN OF HYDRO, OKLAHOMA

Town of Hydro, Oklahoma
Statement of Fiduciary Net Assets
Modified Cash Basis
Fiduciary Funds
June 30, 2011

<u>ASSETS</u>	<u>Meter Deposit Fund</u>	<u>Total Fiduciary Funds</u>
Cash and Investments	\$ <u>38,292.85</u>	\$ <u>38,292.85</u>
Total Assets	\$ <u><u>38,292.85</u></u>	\$ <u><u>38,292.85</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES:		
Meter Deposits Payable	\$ <u>33,820.00</u>	\$ <u>33,820.00</u>
Total Liabilities	<u>33,820.00</u>	<u>33,820.00</u>
NET ASSETS:		
Unassigned	<u>4,472.85</u>	<u>4,472.85</u>
Total Net Assets	<u>4,472.85</u>	<u>4,472.85</u>
Total Liabilities and Net Assets	\$ <u><u>38,292.85</u></u>	\$ <u><u>38,292.85</u></u>

See accompanying notes to the basic financial statements.

Town of Hydro, Oklahoma
Statement of Changes in Fiduciary Net Assets
Modified Cash Basis
Fiduciary Funds
For the Year Ended June 30, 2011

<u>ADDITIONS</u>	<u>Meter Deposit Fund</u>	<u>Total Fiduciary Funds</u>
Interest Income	\$ 5.08	\$ 5.08
Miscellaneous Income	0.00	0.00
Total Additions	<u>5.08</u>	<u>5.08</u>
 <u>DEDUCTIONS</u>		
Maintenance and Operations	94.44	94.44
Transfer Out to General Fund	0.00	0.00
Total Deductions	<u>94.44</u>	<u>94.44</u>
Net Assets - Beginning of Year	<u>4,562.21</u>	<u>4,562.21</u>
Net Assets - End of Year	<u>\$ 4,472.85</u>	<u>\$ 4,472.85</u>

See accompanying notes to the basic financial statements.

**NOTES TO THE
BASIC FINANCIAL STATEMENTS
OF
TOWN OF HYDRO, OKLAHOMA**

TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

1. Summary of Significant Accounting Policies

A. The Reporting Entity

The Town's financial reporting entity includes the primary government and one discretely presented component unit as follows:

- **The Town of Hydro** - that operates the water and sanitation services, public safety, highways and streets, culture and recreation, and general government, governed by the Town Council.
- **The Hydro Development Authority** - public trust created February 7, 2006, pursuant to Title 60 O.S. § 176 that operates the sewer services of the Town, governed by trustees comprised of the entire Town Council.

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma state law. Public Trusts (Authorities) have no taxing power. The Authority is generally created to finance Town services through the issuance of revenue bonds or other non-general obligation debt and to enable the Town Board to delegate certain functions to the governing body (Trustees) of the Authority. The Authority generally retains title to assets which are acquired or constructed with Authority debt or other Authority generated resources. In addition, the Town has leased certain existing assets at the creation of the Authority to the Authority on a long-term basis. The Town, as beneficiary of the Public Trust, receives title to any residual assets when a Public Trust is dissolved.

The Town of Hydro is a corporate body for public purposes and accordingly is a separate entity for operating and financial reporting purposes. The governing body of the Town is the Mayor and Council Members.

The Town, for financial purposes, includes all of the funds relevant to the operations of the Town of Hydro. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the Town of Hydro.

TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Summary of Significant Accounting Policies, (Continued)

The Reporting Entity, (Continued)

In evaluating how to define the town, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic -- but not the only -- criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters.

A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and/or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons.

A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, the Hydro Development Authority is the only component unit included in the Town's reporting entity.

B. Basic Financial Statements

The basic financial statements include both government-wide (based on the Town as a whole) and fund financial statements. This reporting model focuses on either the Town as a whole, or major individual funds (within the fund financial statements). Both the government-wide and fund financial statements categorize activities as either governmental activities or business-type activities. In the government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected, on a modified cash basis of accounting.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Significant Accounting Policies, (Continued)

Basic Financial Statements, (Continued)

The government-wide Statement of Activities reflects both the gross and net cost per functional category (general government, fire department, etc.) which are otherwise being supported by general government revenues (sales tax, interest income, etc.). The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. The program revenues must be directly associated with the function or a business-type activity. Program revenues include revenues from fees, and charges for services. The operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs (by function or business-type activity) are normally covered by general revenue (sales tax, interest income, etc.).

The government-wide focus is more on the sustainability of the Town as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements emphasis is on the major funds in either the governmental or business-type categories. Nonmajor funds (by category) or fund type are summarized into a single column.

The Town's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The focus is on the Town as a whole and the fund financial statements, including the major individual funds of the governmental and business-type categories, as well as the fiduciary funds, (by category) and the component units. Each presentation provides valuable information that can be analyzed and compared (between years and between governments) to enhance the usefulness of the information.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Significant Accounting Policies, (Continued)

C. Basis of Presentation and Accounting

Government-Wide Financial Statements

The statements of net assets and activities are reported on a modified cash basis of accounting. The modified cash basis of accounting is based on the recording of cash and cash equivalents and changes therein, and only recognizes revenues, expenses, assets and liabilities resulting from cash transactions adjusted for modifications that have substantial support in generally accepted accounting principles. These modifications include adjustments for the following balances arising from cash transactions:

- Cash based interfund receivables and payables
- Other cash based receivables and payables
- Investments
- Utility deposit liabilities

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected, and accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) are not recorded in these financial statements.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the Town's taxpayers.

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

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Significant Accounting Policies, (Continued)

Basis of Presentation and Accounting, (Continued)

Fund Accounting

The financial transactions of the Town are recorded in individual funds. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The various funds are reported by generic classification within the financial statements.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types".

Governmental Fund Types

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds).

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities resulting from cash transactions are included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period.

General Fund - The General Fund is the general operating fund of the Town. All financial resources, except those required to be accounted for in another fund, are accounted for in the General Fund.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Significant Accounting Policies, (Continued)

Basis of Presentation and Accounting, (Continued)

Governmental Fund Types, (Continued)

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Town has the following Special Revenue Funds:

1. Street and Alley Fund - funded through gas taxes and commercial vehicle taxes and fees.
2. Fire Equipment Fund - funded through donations and fire related revenues.
3. Penalty Assessment Fund - used for the collection of fines.
4. Grant Fund - used for the collection and disbursement of grant awards.
5. Depot Fund - funded through donations specified for the depot.
6. EMS Fund - funded through sales taxes earmarked for EMS.

Fiduciary Fund Types

Fiduciary Funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support Town programs. The reporting focus is upon net assets and changes in net assets and employs accounting principles similar to proprietary funds.

Trust and Agency Funds - Trust and Agency Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the Town. Agency funds generally are used to account for assets that the Town holds on behalf of others as their agent and do not involve measurement of results of operations.

The Town's Fiduciary Fund type is the Meter Deposit Fund. The Meter Deposit Fund is used to account for the deposit as providing water and sewer services to the general public and is refundable upon closure of a customer's account if no charges are outstanding.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Significant Accounting Policies, (Continued)

Basis of Presentation and Accounting, (Continued)

Proprietary Fund Types

Enterprise Funds - These funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the costs and expenses of providing sewer services to the general public on a continuing basis is financed through user fees.

The proprietary funds are reported on a modified cash basis and economic resources measurement focus. For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

The Town's Proprietary Fund Type is the Hydro Development Authority which was created for the purpose of providing sewer service to the Town of Hydro, Oklahoma. The Authority began operations on February 7, 2006. At that time, the operation of the Town's sewer system was transferred to the Hydro Development Authority.

Major Funds

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses, of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town's major funds are the General Fund, Street and Alley Fund, and the Fire Department Fund.

Nonmajor Governmental Funds (Reported as Other Governmental Funds)

The Nonmajor Governmental Funds are reported as Other Governmental Funds and are combined in a single column in the fund financial statements. The Town's Nonmajor Governmental Funds are the Penalty Assessment Fund, Grant Fund, Depot Fund, and the EMS Fund.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Significant Accounting Policies, (Continued)

D. Budgets and Budgetary Accounting

The Town Council adopts an annual budget for the General Fund. For the period ended June 30, 2011, the original budgeted expenditures were \$723,079.32 for the General Fund. Once approved, the Town Council may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. The annual budget for the General Fund is prepared on the cash and expenditures/encumbrances basis. Revenues are budgeted in the year cash is received, and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be issued. The budgetary comparison financial statements are reported on these bases. Unencumbered appropriations for annually adopted budgeted funds lapse at fiscal year-end.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by source. Expenditures are budgeted by department and character (personal services, maintenance and operations, commodities, capital outlay, debt service) which constitutes the legal level of control.

Expenditures may not exceed appropriations at this level. All budget revisions at this level are subject to final review by the Town Council. Within these control levels, management may transfer appropriations without Council approval.

E. Assets, Liabilities, Fund Balances and Net Assets

Cash, Cash Equivalents, and Investments - For purposes of the financial statements, including the statement of cash flows, the Town considers all cash on hand, demand deposits, money market accounts, savings accounts, and highly liquid investments such as certificates of deposit or short-term investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents. Investments consist of direct obligations of the United States Government and Agencies or certificates of deposit with maturities greater than three months when purchased. All investments are recorded at cost, which approximates market value.

Capital Assets and Depreciation - Since the Town is reporting on the modified cash basis of accounting and is not modifying the cash basis for capital asset transactions, there are no capital assets recorded in the financial statements.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Significant Accounting Policies, (Continued)

Assets, Liabilities, Fund Balances and Net Assets, (Continued)

Long-Term Debt - Due to the Town reporting on the modified cash basis of accounting without modifying for long-term debt transactions, the Town's long-term debt is disclosed as a Commitment in the Notes to the Basic Financial Statements and is not recorded in the financial statements themselves.

Compensated Absences - As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid.

Fund Balances and Net Assets - Fund balances reported in the governmental funds financial statements are generally displayed in the following five components:

1. *Nonspendable* - includes amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.
2. *Restricted* - consists of fund balance with constraints placed on the use of resources either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
3. *Committed* - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority. The Town's highest level of decision making authority is made by ordinance, while the Hydro Development Authority's highest level of decision making authority is made by resolution.
4. *Assigned* - includes amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by the Town Council or management decision when the Town Council has delegated that authority. Assignments for transfers and interest income for governmental funds are made through budgetary process.
5. *Unassigned* - represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the general fund.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Summary of Significant Accounting Policies, (Continued)

Assets, Liabilities, Fund Balances and Net Assets, (Continued)

Fund Balances and Net Assets, (Continued)

It is the Town's policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for purposes for which both restricted and unrestricted fund balance are available. The Town's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used. The only exception to this policy is for assigned interest income in governmental funds other than the General Fund. On those funds, interest income is used first before other revenues.

Fund Balance Deficit Prohibition:

Title 11, section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund (excluding public trusts). The Town had no deficit fund balances for the year ended June 30, 2011.

Net Assets of the Business-Type Activities (Proprietary Funds):

Net assets of the business-type activities (proprietary funds) are displayed in the following two components:

1. *Restricted Net Assets* - Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or law through constitutional provisions or enabling legislation.
2. *Unrestricted Net Assets* - All other net assets that do not meet the definition of restricted.

F. Internal and Interfund Balances and Transfers

The Town's policy is to eliminate interfund transfers and balances in the statement of activities and net assets to avoid the grossing up of balances. Only the residual balances transferred between governmental and business-type activities are reported as internal transfers and internal balances then offset in the total column in the government-wide statements. Internal transfers and balances between funds are not eliminated in the fund financial statements.

TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Summary of Significant Accounting Policies, (Continued)

Use of Estimates

Certain estimates may be made in the preparation of the financial statements. Estimates are based on management's best judgments and may vary from actual results.

2. Cash and Investments

The Town's funds are required to be deposited daily (not later than the immediately next banking day) into one or more banks, trust companies, credit unions or savings and loan associations that have been designated as either state or county depositories, or both. The Town may establish an account outside of the area of the Town, but within this state. All deposits including investments in a depository may not exceed the Federal Deposit Insurance Corporation insurance plus the amount of approved collateral securities pledged by the depository.

The Town may invest monies in direct obligations of the United States Government, certificates of deposit, savings accounts or certificates of savings and loan associations, and warrants, bonds or judgments of the Town.

For the year ended June 30, 2011, the Town recognized \$3,791.82 of investment income. Due to minimal rates of return on allowable investments in the current environment, most of the Town's deposits are in demand deposits and short-term time deposits.

At June 30, 2011, the primary government held the following deposits and investments:

<u>Primary Government:</u>	<u>Carrying Value</u>
Deposits:	
Demand Deposits	\$ 478,211.58
Time Deposits	<u>29,000.00</u>
Total Deposits and Investments	\$ <u>507,211.58</u>
Reconciliation to Statement of Net Assets:	
Cash and Investments	\$ <u>507,211.58</u>

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Cash and Investments, (Continued)

Custodial Credit Risk:

Exposure to custodial credit related to deposits exists when the Town holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Town holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Town's name. The Town's policy as it relates to custodial credit risk is to comply with state law and secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100% of the uninsured deposits and accrued interest thereon. Acceptable collateral is defined in state statutes and includes U.S. Treasury securities and direct debt obligations of municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. The cash deposits at June 30, 2011 are categorized to give an indication of the level of risk assumed by the Town at year end as follows:

- (A) Insured or collateralized with securities held by the Town or by its agent in the Town's name.
- (B) Collateralized with securities held by the pledging financial institutions trust department or agent in the Town's name.
- (C) Uncollateralized.

	Category			Bank
	(A)	(B)	(C)	Balance
Cash	\$ 250,000.00	\$ 228,211.58	\$ 0.00	\$ 478,211.58
Investments	0.00	29,000.00	0.00	29,000.00
Total	\$ 250,000.00	\$ 257,211.58	\$ 0.00	\$ 507,211.58

TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

Cash and Investments, (Continued)

Investment Credit Risk:

The Town has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investments in (1) full faith and credit, direct obligations of the U.S. Government, its agencies and instrumentalities, and the State of Oklahoma and certain mortgage insured federal debt; (2) certificates of deposit or savings accounts that are either insured or secured with acceptable collateral; (3) negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations; (4) county, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district; and government money market funds regulated by the SEC. Title 60 public trusts are not limited by the same investment limitations of their municipal beneficiary. The investments held by the Town and Hydro Development Authority are certificates of deposits.

Investment Interest Rate Risk:

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town has no investment policy that limits based on maturity. The Town discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. As noted in the schedule of deposits and investments above, at June 30, 2011, the maturity dates of investments subject to interest rate risk have been disclosed.

Concentration of Investment Credit Risk:

Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the Town. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The Town has no investment policy regarding concentration of credit risk. At June 30, 2011, the Town had no concentration of credit risk as defined above.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Cash and Investments, (Continued)

Restricted Cash and Investments:

The amounts reported as restricted assets on the proprietary fund statement of net assets are normally composed of amounts restricted for water deposits or amounts restricted or reserved for debt retirements. The restricted assets as of June 30, 2011 are as follows:

<u>Type of Restricted Assets</u>	<u>Current Cash & Cash Equivalents</u>
Restricted for Utility Deposits	\$ 0.00
Restricted for Debt Service	<u>0.00</u>
Total	<u>\$ 0.00</u>

3. Sales Tax Revenue

Sales tax revenue represents a 3 cent local tax on each dollar of taxable sales within the Town, of which all 3 cents is reported in the Town's general fund. Effective October 1, 2011, this rate will increase to a 4 cent local tax on each dollar of taxable sales within the Town, of which the additional 1 cent will be placed in a restricted sales tax fund that can only be used for capital improvements and debt service of which the proceeds were used for capital improvements.

4. Property Tax Levy

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

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

5. Transfers

Internal transfers between funds and activities for the year ended June 30, 2011, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Nature of Transfer</u>
General Fund	HDA	\$ 95,000.00	Operating
Grant Fund	HDA	<u>4,550.00</u>	Expenses paid on behalf of another fund
		<u>\$ 99,550.00</u>	

Reconciliation to Statement of Changes in Net Assets:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental	\$ 0.00	\$ (99,550.00)	\$ (99,550.00)
Business-Type	<u>99,550.00</u>	<u>0.00</u>	<u>99,550.00</u>
Total	<u>\$ 99,550.00</u>	<u>\$ (99,550.00)</u>	<u>\$ 0.00</u>

6. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. These risks are managed by securing commercial insurance. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

7. Pension Plan Participation

The Town of Hydro participates in two pension or retirement plans:

1. Oklahoma Firefighter's Pension and Retirement System (OFPRS) - a statewide cost-sharing plan.
2. Oklahoma Municipal Retirement Fund (OMRF) - a statewide cost-sharing plan.

**TOWN OF HYDRO, OKLAHOMA
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED JUNE 30, 2011**

Pension Plan Participation, (Continued)

OFPRS:

The Town of Hydro, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS) as a result of the employment of firefighters. The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the Town must participate in the plan if they employ fulltime or volunteer firefighters. OFPRS plan members are required to contribute 8% to the plan. The Town is required by state law to contribute 13% per year of covered payroll for paid firefighters. For volunteer firefighters, the Town is required to contribute \$60 per year per volunteer, while there is no required contribution by the volunteer. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. For the fiscal year ended June 30, 2011, the Town's annual required contribution was \$780 for the OFPRS plan and was equal to the Town's actual contribution.

Fiscal Year	OFPRS	
	Required Contribution	Amount Contributed
2011	\$ 780	100%

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

OFPRS
 4545 N. Lincoln Blvd., Suite 265
 Oklahoma City, OK 73105-3414

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Pension Plan Participation, (Continued)

OMRF:

The Town contributes to the Oklahoma Municipal Retirement Fund (OMRF) for all regular, full-time employees that are eligible except any policemen, firemen or other employees covered under another state retirement system. Elected officials may be included with the consent of the municipality. All other employees must be less than age 60 at date of hire. This requirement may be waived for employees who were active on the date the plan was established. An employee is eligible for an early retirement benefit once he has attained age 55 and has completed the required years of vesting service. The amount of benefit is determined based on the final average salary and the credited service as of the date of termination. If benefit payments are to begin before age 65 the amount of benefit will be actuarially reduced. Employees who retire at age 65, or the completion of vesting service, if later, are entitled to the normal retirement benefit. The system also provides death and disability benefits.

The employer will contribute an amount as determined by the actuary to fund the benefit level as elected by the municipality. The employer may elect to have each eligible employee contribute a percentage of their annual compensation toward the cost of his benefits. For the fiscal year ended June 30, 2011, the Town's annual required contribution was \$17,506 for the OMRF plan and was equal to the Town's actual contribution.

Fiscal Year	OMRF	
	Required Contribution	Amount Contributed
2011	\$ 17,506	100%

The OMRF issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to:

Oklahoma Municipal Retirement Fund
525 Central Park Drive, Suite 320
Oklahoma City, OK 73105

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

8. Commitments and Contingencies

Long-Term Debt Commitments

Hydro Development Authority:

Note Payable:

The Hydro Development Authority entered into a loan agreement on December 27, 2010 for \$250,000 with the Bank of Hydro, Hydro, Oklahoma, to help finance the purchase of land and a total retention sewage lagoon. The loan calls for monthly interest payments at the rate of 5.25%, with a final principal payment due December 10, 2011. The loan is secured by town revenues. At June 30, 2011, the outstanding principal balance on this loan was \$249,635.55. The following is a summary of the remaining payments by year on the loan:

Year Ended	Principal	Interest	Total
6-30-12	\$ <u>249,635.55</u>	\$ <u>6,143.02</u>	\$ <u>255,778.57</u>

Compensated Absences

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences earned but unpaid at year-end are not reflected in the basic financial statements.

Litigation

The Town and its public trusts are sometimes parties to various legal proceedings, or have threatened litigation which normally occurs in the course of municipal government operations. The financial statements do not include accruals or provisions for loss contingencies that may result from those proceedings. The State Constitution and statutes provide for the levy of an advalorem tax over a three year period by a Sinking Fund for the payment of any court assessed judgment rendered against the Town. (This provision is not available to public trusts.) While the outcome any proceedings or threatened litigation cannot be predicted, due to the insurance coverage maintained by the Town and the state statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a materially adverse effect on the financial condition of the Town.

**TOWN OF HYDRO, OKLAHOMA
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

Commitments and Contingencies, (Continued)

Federal and State Award Programs

The Town participates in various federal and state grant programs from year to year. These grant programs are often subject to additional audits by agents of the granting agency, the purpose of which is to ensure compliance with the specific conditions of the grant. The Town had to return to ASCOG \$43,705.44 of ASCOG REAP Grant funds that were not spent in the timeframe allowed by the ASCOG grant guidelines during the year ended June 30, 2011. Of the \$43,705.44 that was returned, \$12,133.32 was paid by the Grant Fund, and \$31,572.12 was paid by the Hydro Development Authority.

SUPPLEMENTARY INFORMATION
OF
TOWN OF HYDRO, OKLAHOMA

Town of Hydro, Oklahoma
Combining Balance Sheet
Modified Cash Basis
Nonmajor Governmental Funds
June 30, 2011

<u>ASSETS</u>	Special Revenue				Total Nonmajor Governmental Funds
	Penalty Assessment	Grant Fund	Depot Fund	EMS Fund	
Cash and Investments	\$ 216.03	\$ 0.00	\$ 2,729.08	\$ 7,010.60	\$ 9,955.71
Total Assets	<u>\$ 216.03</u>	<u>\$ 0.00</u>	<u>\$ 2,729.08</u>	<u>\$ 7,010.60</u>	<u>\$ 9,955.71</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
LIABILITIES:					
Due to Other Funds	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00
Total Liabilities	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>
 FUND BALANCES:					
Restricted For:					
Penalty Assessment	216.03	0.00	0.00	0.00	216.03
Grants	0.00	0.00	0.00	0.00	0.00
Depot	0.00	0.00	2,729.08	0.00	2,729.08
EMS	<u>0.00</u>	<u>0.00</u>	<u>0.00</u>	<u>7,010.60</u>	<u>7,010.60</u>
Total Fund Balances	<u>216.03</u>	<u>0.00</u>	<u>2,729.08</u>	<u>7,010.60</u>	<u>9,955.71</u>
Total Liabilities and Fund Balances	<u>\$ 216.03</u>	<u>\$ 0.00</u>	<u>\$ 2,729.08</u>	<u>\$ 7,010.60</u>	<u>\$ 9,955.71</u>

Town of Hydro, Oklahoma
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Modified Cash Basis
Nonmajor Governmental Funds
For the Year Ended June 30, 2011

	Special Revenue				Total Nonmajor Governmental Funds
	Penalty Assessment	Grant Fund	Depot Fund	EMS Fund	
<u>REVENUES:</u>					
Interest on Investments	\$ 0.00	\$ 0.00	\$ 18.92	\$ 0.00	\$ 18.92
Miscellaneous	0.00	0.00	0.00	0.00	0.00
CDBG Grant	0.00	0.00	0.00	0.00	0.00
ASCOG REAP Grant	0.00	0.00	0.00	0.00	0.00
Donations	0.00	0.00	0.00	0.00	0.00
Sales Tax	0.00	0.00	0.00	9,395.08	9,395.08
Police Fines	1,140.00	0.00	0.00	0.00	1,140.00
	<u>1,140.00</u>	<u>0.00</u>	<u>18.92</u>	<u>9,395.08</u>	<u>10,554.00</u>
Total Operating Revenues	1,140.00	0.00	18.92	9,395.08	10,554.00
<u>EXPENDITURES:</u>					
Personal Services	0.00	0.00	0.00	6,810.97	6,810.97
Maintenance and Operations	1,152.58	0.00	0.00	0.00	1,152.58
Repayment of ASCOG Grant	0.00	12,133.32	0.00	0.00	12,133.32
Capital Outlay	0.00	0.00	0.00	0.00	0.00
	<u>1,152.58</u>	<u>12,133.32</u>	<u>0.00</u>	<u>6,810.97</u>	<u>20,096.87</u>
Total Expenditures	1,152.58	12,133.32	0.00	6,810.97	20,096.87
Excess Revenue Over (Under) Expenditures	<u>(12.58)</u>	<u>(12,133.32)</u>	<u>18.92</u>	<u>2,584.11</u>	<u>(9,542.87)</u>
<u>OTHER FINANCING SOURCES (USES)</u>					
Operating Transfers In	0.00	0.00	0.00	0.00	0.00
Operating Transfers Out	0.00	(4,550.00)	0.00	0.00	(4,550.00)
	<u>0.00</u>	<u>(4,550.00)</u>	<u>0.00</u>	<u>0.00</u>	<u>(4,550.00)</u>
Net Other Financing Sources (Uses)	0.00	(4,550.00)	0.00	0.00	(4,550.00)
Excess of Revenues and Other Sources over Expenditures and Other Uses	<u>(12.58)</u>	<u>(16,683.32)</u>	<u>18.92</u>	<u>2,584.11</u>	<u>(14,092.87)</u>
Fund Balance, Beginning of Year (Restated)	228.61	16,683.32	2,710.16	4,426.49	24,048.58
Fund Balance, End of Year	<u>\$ 216.03</u>	<u>\$ 0.00</u>	<u>\$ 2,729.08</u>	<u>\$ 7,010.60</u>	<u>\$ 9,955.71</u>

REPORT ON INTERNAL CONTROL AND ON COMPLIANCE
OF
TOWN OF HYDRO, OKLAHOMA



BRITTON, KUYKENDALL & MILLER
CERTIFIED PUBLIC ACCOUNTANTS

JAMES M. KUYKENDALL
RICK D. MILLER

204 E. FRANKLIN – P.O. BOX 507
WEATHERFORD, OK 73096
580-772-3596
FAX 580-772-3085

BRANCH OFFICE:
106 N. COLLEGE – P.O. BOX 266
CORDELL, OK 73632
580-832-5313
FAX 580-832-5314

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and Town Council
Town of Hydro, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Hydro, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Hydro, Oklahoma's basic financial statements and have issued our report thereon dated September 30, 2011. As stated in our report, the financial statements were prepared in compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Hydro, Oklahoma'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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity'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.



Compliance and Other Matters

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

We noted certain matters that we have reported to the Town Council and administrative employees of Town of Hydro, Oklahoma, in a separate statement of audit comments included with this report.

This report is intended solely for the information and use of the Town Council and administrative employees, and all applicable county, state and federal agencies and is not intended to be and should not be used by anyone other than these specified parties.

Britton, Kuykendall & Miller

BRITTON, KUYKENDALL AND MILLER
Certified Public Accountants

Weatherford, Oklahoma
September 30, 2011

TOWN OF HYDRO, OKLAHOMA
AUDIT COMMENTS
JUNE 30, 2011

CURRENT YEAR

1. During our audit of the General Fund and Fire Equipment Fund, we noted instances where invoices were dated before the purchase orders were approved. All purchase orders must be approved and issued by the purchasing agent to allow any purchase to be made or any order placed. Funds are not to be obligated without authorization by the purchasing agent. The person obligating these funds without approval can be held liable to pay for the purchases. In addition, we also noted instances where the descriptions of items to be purchased were not being filled out on the purchase orders. A properly completed purchase order must contain a description of the items that are to be purchased as well as the total authorized amounts of the items to be purchased.

2. During our audit of the General Fund, we noted instances where invoices were not signed to verify receipt of goods or services. The person receiving goods or services should sign the invoice, statement or delivery ticket to indicate that the goods or services were received and in good condition.

105 W 5TH STREET
405-663-2531

TOWN OF HYDRO

P.O. BOX 248
405-663-4110 (FAX)

January 24, 2012

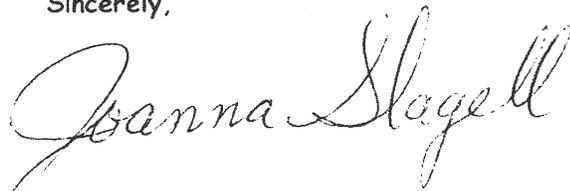
Britton, Kuykendall & Miller
P.O. Box 507
Weatherford, OK 73096

RE: Audit Comments

Dear Sirs:

Upon learning of possible errors in the procedures concerning the purchase orders, the following practices have been implemented to prevent any further violations. Meetings with the Fire Department & Town employees are scheduled to address these issues. Any future invoices that come into the office without authorization, will be brought before the city council for approval or disapproval. Disapproved PO's will be returned to the person responsible for payment. Also, future purchase orders will have the proper descriptions of items purchased & all receipts & invoices will be signed verifying their delivery & condition upon receipt.

Sincerely,

A handwritten signature in cursive script that reads "Joanna Slagell". The signature is written in black ink and is positioned above the typed name and title.

Joanna Slagell
Town Clerk