

Town of

# Hennessey, Oklahoma



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

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**THE TOWN OF HENNESSEY,  
OKLAHOMA**

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

**AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

**TOWN OF HENNESSEY, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2013**

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**TOWN OF HENNESSEY, OKLAHOMA**  
**ANNUAL FINANCIAL REPORT**  
**As of and for the Year Ended June 30, 2013**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Town Board  
Town of Hennessey, Oklahoma

**Report on the Financial Statements**

We have audited the accompanying financial statements of the Town of Hennessey, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Hennessey, Oklahoma's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

**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 from 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 opinion on 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.

**Opinion**

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 Hennessey, Oklahoma, as of June 30, 2013, and the respective changes in financial position—modified cash basis, and where applicable, cash flows – modified cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

***Basis of Accounting***

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

***Other Matters – Supplementary and 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 accompanying supplemental combining fund schedules – modified cash basis, federal and state awards information, and debt service coverage information, and the other information including management's discussion and analysis and budgetary comparison information, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining funds schedules – modified cash basis, federal and state awards information, and debt service coverage information, as listed in the table of contents, were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 combining fund schedules, federal and state awards information, and debt service coverage information are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in Note 1.

Management's discussion and analysis and budgetary comparison information, as listed in the table of contents, has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

***Report on Other Legal and Regulatory Requirements***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2013, 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, 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.

  
November 1, 2013

**TOWN OF HENNESSEY, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2013**

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The management of the Town of Hennessey is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the Town's financial condition and activities as of and for the year ended June 30, 2013. Management of the Town is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The Town reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

### **FINANCIAL HIGHLIGHTS**

- As reported on a modified cash basis, the Town's total net position increased by \$251,876 and the assets of the Town exceed its liabilities at June 30, 2013, by \$2,103,588 (net position). Of this amount, \$1,135,922 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2013, the Town's governmental funds reported combined ending fund balances on a modified cash basis of \$1,385,027.
- At the end of fiscal year 2013, unassigned fund balance on a modified cash basis for the General Fund was \$394,079 or 37.9% of annual General Fund revenues.

### **ABOUT THE TOWN**

The Town of Hennessey is a statutory town form of government with a population of approximately 2,058 located in Kingfisher County in central Oklahoma. The Town is governed by a five-member Board and operates under state law and Town ordinances through the three branches of democratic government:

- Legislative – the Town Board is a five-member governing body elected by the citizens at large
- Executive – the Town Mayor is the Chief Executive Officer and is appointed by the Town Board
- Judicial – the Municipal Judge is a practicing attorney appointed by the Town Board

The Town provides typical municipal services such as public safety, street and alley maintenance, parks and recreation, library, community development, ambulance, and through its Utilities Authority, certain utility services including water, wastewater, and sanitation.

#### ***The Town's Financial Reporting Entity***

This annual report includes all activities for which the Town Board is financially accountable. These activities, defined as the Town's financial reporting entity, are operated within separate legal entities.

The Town's financial reporting entity includes the following separate legal entities.

- **The Town of Hennessey (primary government)** – operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities of the Town.

- **The Hennessey Utilities Authority (HUA)** – public trust created pursuant to 60 O.S. § 176 to operate the water, wastewater, and sanitation services of the Town. The Town of Hennessey is the beneficiary of the trust and the Town Board serves as the governing body of the trust.

In addition, as required by state law, all debt obligations incurred by the trust must be approved by two-thirds vote of the Town Board. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the Town's financial reporting entity. The public trust does not issue separate annual financial statements, and is reported as a blended enterprise fund within the town's financial statements.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include all of the activities of the Town of Hennessey (the "Town") and the Hennessey Utilities Authority (the "Authority"). Included in this report are government-wide statements for each of the two categories of activities - governmental and business-type.

The government-wide financial statements present a financial picture of the Town modified cash basis of accounting. They present governmental and business-type activities separately and combined. For These activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds.

### **Reporting the Town as a Whole**

#### ***The Statement of Net Position and Statement of Activities***

One of the most important questions to ask about the Town's finances is, "Has the Town's overall financial condition improved, declined or remained steady as a result of the year's activities?" The Statement of Net Position and the Statement of Activities report information about the Town as a whole and about its activities in a way that helps answer this question. You will need to consider other non-financial factors, however, such as changes in the Town's sales tax base, the condition of the Town's roads, and quality of service to assess the overall health of the Town. You will also need to keep in mind that these government-wide statements are prepared in accordance with the modified cash basis of accounting and include only those Town assets and liabilities resulting from cash transactions, with capital assets and long-term debt activity excluded.

In the Statement of Net Position and the Statement of Activities, we divide the Town into two kinds of activities: *Governmental activities* - Most of the Town's basic services are reported here, including the police, fire, administration, and streets. Sales taxes, franchise fees, fines, and state and federal grants finance most of these activities; and *Business-type activities* – Activities where the Town charges a fee to customers to help cover all or most of the cost of certain services it provides are reported here. The Town's water, sewer, and sanitation utilities are reported as business-type activities.

## **Reporting the Town's Most Significant Funds - Fund Financial Statements**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the Town's most significant (major) funds -- not the Town as a whole. Some funds are required to be established by State law and by debt covenants. However, the Town Board may also establish certain other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Town's two kinds of funds -- *governmental and proprietary* - use different accounting approaches.

*Governmental funds* - All of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. Governmental funds report their activities on a modified cash basis of accounting. For example, these funds report the acquisition of capital assets and payments for debt principal as expenditures and not as changes to asset and debt balances. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps you determine (through a review of changes to fund balance) whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs.

*Proprietary funds* - When the Town, through the Utilities Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting. The Town's proprietary fund is the Hennessey Utilities Authority that accounts for the operation of the water, sewer, and sanitation activities.

### **Notes to the Financial Statements**

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 23-34 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents Budgetary Comparison Schedules for the General Fund and the Restricted Sales Tax Fund, federal and state award schedule and a debt service coverage schedule.

### **THE TOWN AS A WHOLE**

For the year ended June 30, 2013, net position on a modified cash basis for the governmental and business-type activities increased \$251,876.

Following is a summary of net position reported on a modified cash basis for the Town of Hennessey.

**TOWN OF HENNESSEY, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2013**

**The Town of Hennessey's Net Position (Modified Cash Basis)**  
**June 30, 2013**  
**(In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	Restated			Restated			Restated		
	2013	2012	2013	2012	2013	2012			
Current assets	\$ 1,385	\$ 997	39%	\$ 771	\$ 905	-15%	\$ 2,156	\$ 1,903	13%
<b>Total assets</b>	<b>1,385</b>	<b>997</b>	<b>39%</b>	<b>771</b>	<b>905</b>	<b>-15%</b>	<b>2,156</b>	<b>1,903</b>	<b>13%</b>
Current liabilities	-	-	-	53	133	-60%	53	133	-60%
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53</b>	<b>133</b>	<b>-60%</b>	<b>53</b>	<b>133</b>	<b>-60%</b>
Net position									
Restricted	899	673	34%	69	65	6%	968	738	31%
Unrestricted	486	324	50%	649	789	-18%	1,135	1,113	2%
<b>Total net position</b>	<b>\$ 1,385</b>	<b>\$ 997</b>	<b>39%</b>	<b>\$ 718</b>	<b>\$ 854</b>	<b>-16%</b>	<b>\$ 2,103</b>	<b>\$ 1,851</b>	<b>14%</b>

A portion of the Town's net position, \$967,666, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$1,135,922, may be used to meet the government's ongoing needs.

**The Town of Hennessey's Revenues, Expenses and Changes in Net Position (Modified Cash Basis)**  
**Year Ended June 30, 2013**  
**(In Thousands)**

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	Restated			Restated			Restated		
	2013	2012	2013	2012	2013	2012			
<b>Revenues</b>									
Charges for services	\$ 185	\$ 143	29%	\$ 1,203	\$ 1,164	3%	\$ 1,388	\$ 1,307	6%
Operating grants and contributions	30	42	-29%	30	-		60	42	43%
Capital grants and contributions	-	25	-100%	335	-		335	26	1188%
Taxes	1,258	1,040	24%	-	-		1,288	1,040	24%
Intergovernmental revenue	38	36	6%	-	-		38	36	6%
Investment income	3	4	-25%	3	4	-25%	6	8	-25%
Miscellaneous	49	43	14%	14	15	-7%	63	58	9%
<b>Total revenues</b>	<b>1,593</b>	<b>1,334</b>	<b>19%</b>	<b>1,585</b>	<b>1,183</b>	<b>34%</b>	<b>3,178</b>	<b>2,517</b>	<b>26%</b>
<b>Expenses</b>									
General government	185	170	9%	-	-		185	170	9%
Public safety	684	665	3%	-	-		684	665	3%
Streets	154	160	-4%	-	-		154	160	-4%
Culture and recreation	173	194	-11%	-	-		173	194	-11%
Cemetery	9	9	0%	-	-		9	9	0%
Water	-	-	-	743	442	68%	743	442	68%
Wastewater	-	-	-	689	84	720%	689	84	720%
Sanitation	-	-	-	289	242	19%	289	242	19%
<b>Total expenses</b>	<b>1,205</b>	<b>1,198</b>	<b>1%</b>	<b>1,721</b>	<b>768</b>	<b>124%</b>	<b>2,925</b>	<b>1,966</b>	<b>49%</b>
Excess (deficiency) before transfers	388	136	185%	(136)	415	-133%	252	551	-54%
Transfers	-	50	100%	-	(50)	-100%	-	-	
<b>Change in net position</b>	<b>388</b>	<b>186</b>	<b>109%</b>	<b>(136)</b>	<b>365</b>	<b>-137%</b>	<b>252</b>	<b>551</b>	<b>-54%</b>
Beginning net position	997	811	23%	854	489	75%	1,851	1,300	42%
<b>Ending net position</b>	<b>\$ 1,385</b>	<b>\$ 997</b>	<b>39%</b>	<b>\$ 718</b>	<b>\$ 854</b>	<b>-16%</b>	<b>\$ 2,103</b>	<b>\$ 1,851</b>	<b>14%</b>

**TOWN OF HENNESSEY, OKLAHOMA**  
**Management's Discussion and Analysis**  
**As of and for the Year Ended June 30, 2013**

**Governmental Activities**

The Town's governmental activities had an increase in net position of \$387,614. The increase is mostly due to sales and use tax revenue increasing over the prior year.

**Net Revenue (Expense) of Governmental Activities**  
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	Restated			Restated		
	2013	2012		2013	2012	
General government	\$ 185	\$ 170	9%	(\$180)	(\$210)	-14%
Public safety	684	665	3%	(524)	(566)	-7%
Streets	154	160	-4%	(135)	(181)	-25%
Culture, parks and recreation	173	194	-11%	(147)	(152)	-3%
Cemetery	9	9	0%	(4)	(5)	-20%
<b>Total</b>	<b>\$ 1,205</b>	<b>\$ 1,198</b>	<b>1%</b>	<b>(\$990)</b>	<b>(\$1,114)</b>	<b>-11%</b>

**Business-type Activities**

The business-type activities had a decrease in net position of \$135,738. The decrease is mostly due to an increase in wastewater expenses related to a sewer project started in the current fiscal year.

**Net Revenue (Expense) of Business-Type Activities**  
(In Thousands)

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	Restated			Restated		
	2013	2012		2013	2012	
Water	\$ 743	\$ 442	68%	\$ 133	\$ 120	11%
Wastewater	689	84	720%	(271)	132	-305%
Sanitation	289	242	19%	(14)	(51)	73%
<b>Total</b>	<b>\$ 1,721</b>	<b>\$ 768</b>	<b>124%</b>	<b>\$(152)</b>	<b>\$ 201</b>	<b>-176%</b>

**A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS**

As the Town completed its 2013 fiscal year, the governmental funds reported a combined fund balance of \$1,385,027. For the year ended June 30, 2013, the General Fund's total fund balance increased by \$132,450.

**TOWN OF HENNESSEY, OKLAHOMA  
Management's Discussion and Analysis  
As of and for the Year Ended June 30, 2013**

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**Budgetary Highlights**

For the year ended June 30, 2013, the General Fund reported actual modified cash basis revenues over final estimates by \$116,498 or a 12.6% positive variance. General Fund actual expenditures were under final appropriations by \$15,041 or a 1.7% positive variance.

The Restricted Sales Tax Fund reported actual modified cash basis revenues over final estimates by \$109,873 or a 27% positive variance for the year ended June 30, 2013. Restricted Sales Tax Fund actual expenditures were under final appropriations by \$151,156 or a 36.6% positive variance.

**ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES**

The following information outlines significant known factors that will affect subsequent year finances:

- The FY 2014 budget is consistent to prior years.
- The City is currently under a consent order handed down from the Department of Environmental Quality; the new sewer project construction started in fiscal year 2013.

**Contacting the Town's Financial Management**

This report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Town Clerk's office at P.O. Box 306, Hennessey, Oklahoma 73742 or telephone at 405-853-2416.

**TOWN OF HENNESSEY, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2013**

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**BASIC FINANCIAL STATEMENTS -- STATEMENTS OF NET POSITION AND ACTIVITIES**

**TOWN OF HENNESSEY, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2013**

**Statement of Net Position (Modified Cash Basis)- June 30, 2013**

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 219,448	\$ 53,144	\$ 272,592
Investments	1,106,299	777,661	1,883,960
Internal balances	59,280	(59,280)	-
<b>Total assets</b>	<b>1,385,027</b>	<b>771,525</b>	<b>2,156,552</b>
<b>LIABILITIES</b>			
Due to depositors	-	52,964	52,964
<b>Total liabilities</b>	<b>-</b>	<b>52,964</b>	<b>52,964</b>
<b>NET POSITION</b>			
Restricted for:			
Ambulance	259,756	-	259,756
Street improvements	313,221	-	313,221
Capital outlay	138,963	-	138,963
Street and alley	36,276	-	36,276
Juvenile programs	17,807	-	17,807
Snyder trust	34,893	-	34,893
Cemetery	97,952	-	97,952
Debt service	-	68,798	68,798
Unrestricted	<b>486,159</b>	<b>649,763</b>	<b>1,135,922</b>
<b>Total net position</b>	<b>\$ 1,385,027</b>	<b>\$ 718,561</b>	<b>\$ 2,103,588</b>

See accompanying notes to the basic financial statements.

**TOWN OF HENNESSEY, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2013**

**Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2013**

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government</b>							
<b>Governmental Activities</b>							
General Government	\$ 184,907	\$ 5,005	\$ -	\$ -	\$ (179,902)	\$ -	\$ (179,902)
Public Safety	683,550	154,613	4,484	-	(524,453)	-	(524,453)
Streets	154,465	-	19,224	-	(135,241)	-	(135,241)
Culture and Recreation	172,711	20,123	6,022	-	(146,566)	-	(146,566)
Cemetery	8,936	5,000	-	-	(3,936)	-	(3,936)
Total governmental activities	<u>1,204,569</u>	<u>184,741</u>	<u>29,730</u>	<u>-</u>	<u>(990,098)</u>	<u>-</u>	<u>(990,098)</u>
<b>Business-Type Activities:</b>							
Water	742,625	645,098	30,000	200,357	-	132,630	132,630
Wastewater	688,775	282,906	-	134,827	-	(271,242)	(271,242)
Sanitation	289,413	275,153	-	-	-	(14,260)	(14,260)
Total business-type activities	<u>1,720,813</u>	<u>1,203,157</u>	<u>30,000</u>	<u>334,984</u>	<u>-</u>	<u>(152,672)</u>	<u>(152,672)</u>
<b>Total primary government</b>	<b>\$ 2,925,382</b>	<b>\$ 1,387,898</b>	<b>\$ 59,730</b>	<b>\$ 334,984</b>	<b>(990,098)</b>	<b>(152,672)</b>	<b>(1,142,770)</b>
<b>General revenues:</b>							
<b>Taxes:</b>							
Sales and use taxes					\$ 1,202,381	\$ -	\$ 1,202,381
Franchise taxes and public service taxes					85,643	-	85,643
Intergovernmental revenue not restricted to specific programs					37,654	-	37,654
Unrestricted investment earnings					3,433	2,798	6,231
Miscellaneous					48,801	14,136	62,737
Total general revenues and transfers					<u>1,377,712</u>	<u>16,934</u>	<u>1,394,646</u>
<b>Change in net position</b>					<u>387,614</u>	<u>(135,738)</u>	<u>251,876</u>
<b>Net position - beginning, restated</b>					<u>997,413</u>	<u>854,299</u>	<u>1,851,712</u>
<b>Net position - ending</b>					<u>\$ 1,385,027</u>	<u>\$ 718,561</u>	<u>\$ 2,103,588</u>

See accompanying notes to the basic financial statements.

**TOWN OF HENNESSEY, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
As of and for the Year Ended June 30, 2013**

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**BASIC FINANCIAL STATEMENTS - GOVERNMENTAL FUNDS**

**TOWN OF HENNESSEY, OKLAHOMA  
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**Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2013**

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 63,210	\$ 149,283	\$ 6,955	\$ 219,448
Investments	283,520	639,114	183,665	1,106,299
Due from other funds	59,280	-	-	59,280
Total assets	<u>\$ 406,010</u>	<u>\$ 788,397</u>	<u>\$ 190,620</u>	<u>\$ 1,385,027</u>
 <b>FUND BALANCES</b>				
Fund balances:				
Restricted	-	711,940	186,928	898,868
Assigned	11,931	76,457	3,692	92,080
Unassigned	394,079	-	-	394,079
Total fund balances	<u>406,010</u>	<u>788,397</u>	<u>190,620</u>	<u>1,385,027</u>
Total fund balances	<u>\$ 406,010</u>	<u>\$ 788,397</u>	<u>\$ 190,620</u>	<u>\$ 1,385,027</u>

See accompanying notes to the basic financial statements.

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**Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance  
(Modified Cash Basis) – Year Ended June 30, 2013**

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>				
Taxes	\$ 772,718	\$ 515,306	\$ -	\$ 1,288,024
Intergovernmental	42,138	-	25,246	67,384
Licenses and permits	5,005	-	-	5,005
Charges for services	25,998	-	625	26,623
Fees and fines	152,333	-	780	153,113
Investment earnings	986	1,907	540	3,433
Miscellaneous	42,006	-	6,595	48,601
<b>Total revenues</b>	<u>1,041,184</u>	<u>517,213</u>	<u>33,786</u>	<u>1,592,183</u>
<b>EXPENDITURES</b>				
<b>Current:</b>				
General government	184,907	-	-	184,907
Public safety	431,482	203,611	-	635,093
Highways and streets	132,219	-	19,298	151,517
Culture and recreation	152,450	-	12,513	164,963
Cemetery	7,676	-	-	7,676
Capital outlay	-	59,153	1,260	60,413
<b>Total expenditures</b>	<u>908,734</u>	<u>262,764</u>	<u>33,071</u>	<u>1,204,569</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>132,450</u>	<u>254,449</u>	<u>715</u>	<u>387,614</u>
<b>Net change in fund balances</b>	132,450	254,449	715	387,614
Fund balances - beginning	273,560	533,948	189,905	997,413
<b>Fund balances - ending</b>	<u>\$ 406,010</u>	<u>\$ 788,397</u>	<u>\$ 190,620</u>	<u>\$ 1,385,027</u>

See accompanying notes to the basic financial statements.

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**BASIC FINANCIAL STATEMENTS - PROPRIETARY FUNDS**

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**Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2013**

	<b><u>Hennessey Utilities Authority</u></b>
<b>ASSETS</b>	
Current assets:	
Investments	\$ 709,043
Restricted:	
Cash and cash equivalents	53,144
Investments	68,618
Total current assets	<u>830,805</u>
Total assets	<u>830,805</u>
 <b>LIABILITIES</b>	
Current liabilities:	
Due to other funds	\$ 59,280
Deposits subject to refund	52,964
Total current liabilities	<u>112,244</u>
Total liabilities	<u>112,244</u>
 <b>NET POSITION</b>	
Restricted for debt service	68,798
Unrestricted	649,763
Total net position	<u>\$ 718,561</u>

See accompanying notes to the basic financial statements.

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**Proprietary Fund Statement of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2013**

	<b><u>Hennessey Utilities Authority</u></b>
<b>REVENUES</b>	
Water	\$ 633,271
Sewer	277,452
Sanitation	269,235
Penalties	17,039
Reconnect fees	5,975
Miscellaneous	14,321
Total operating revenues	<u>1,217,293</u>
<b>OPERATING EXPENSES</b>	
General government	68,896
Water	458,772
Wastewater	165,229
Sanitation	266,265
Total operating expenses	<u>959,162</u>
Operating income	<u>258,131</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>	
Investment income	2,798
Loan proceeds	200,357
Operating grants and contributions	30,000
Debt service:	
Principal	(215,326)
Interest	(27,921)
Capital outlay	(518,404)
Total non-operating revenue (expenses)	<u>(528,496)</u>
Income (loss) before transfers and contributions	(270,365)
Capital contributions	134,627
Change in net assets	(135,738)
Total net position - beginning, restated	854,299
Total net position - ending	<u>\$ 718,561</u>

See accompanying notes to the basic financial statements.

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**Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2013**

	<u>Hennessey Utilities Authority</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from customers	\$ 1,217,293
Payments to suppliers and employees	(959,162)
Receipts of customer meter deposits	7,317
Refunds of customer meter deposits	(5,175)
Interfund receipts/payments	59,280
Other receipts	30,000
<b>Net cash provided by operating activities</b>	<u>349,553</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchases of capital assets	(518,404)
Loan proceeds	200,357
Principal paid on debt	(215,326)
Interest and fiscal agent fees paid on debt	(27,921)
<b>Net cash provided by (used in) capital and related financing activities</b>	<u>(561,294)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Sale of investments	43,897
Interest and dividends	2,798
<b>Net cash provided by investing activities</b>	<u>46,495</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	(30,619)
<b>Balances - beginning of year</b>	<u>83,763</u>
<b>Balances - end of year</b>	<u>\$ 53,144</u>
<b>Reconciliation to Statement of Net Assets:</b>	
Restricted cash and cash equivalents - current	\$ 53,144
Total cash and cash equivalents, end of year	<u>\$ 53,144</u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ 258,131
Change in assets and liabilities:	
Interfund receipts/payments	59,280
Deposits subject to refund	2,142
<b>Net cash provided by operating activities</b>	<u>\$ 349,553</u>

See accompanying notes to the basic financial statements.

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**FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS**

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**Footnotes to the Statement of Net Position and Activities:**

**1. Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

The Town's financial reporting entity includes two separate legal entities reported as the primary government.

- **The Town of Hennessey** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities
- **The Hennessey Utilities Authority** – that operates the water, sewer, and sanitation services of the Town through a public trust of which the Town is the beneficiary. The Town Board serves as trustees for the Authority and all debt obligations of the Authority must be approved by 2/3rds vote of the Town Board.

In determining the financial reporting entity, the Town complies with the provisions of Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended by Statement 61, and includes all component units for which the Town is financially accountable.

The component unit is a Public Trust established pursuant to Title 60 of Oklahoma State law. Public Trusts (Authorities) have no taxing power. The Authorities are generally created to finance Town services through issuance of revenue bonds or other non-general obligation debt and to enable the Town Council to delegate certain functions to the governing body (Trustees) of the Authority. The Authorities generally retain 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 Authorities to the Trustees on a long-term basis. The Town, as beneficiary of the Public Trusts, receives title to any residual assets when a Public Trust is dissolved.

The component unit (Authority) has the Town Board as their governing body (trustees) and the Town is able to impose its will on the Authority through required approval of all debt obligations issued by these entities.

As required by state law, all debt obligations incurred by the above trusts must be approved by two-thirds vote of the Town Board. This is considered sufficient imposition of will to demonstrate financial accountability and to include the trust within the Town's financial reporting entity. The public trust does not issue separate financial statements

**B. Basis of Presentation and Accounting**

**Implementation of New Accounting Standards:**

The City has implemented the effect of the following new accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement 60 – Service Concession Arrangements (no material effect)
- Statement 61 – The Financial Reporting Entity (no material effect)

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Statement 62 – Codification of pre-1989 FASB standards and AICPA pronouncements (no material effect)

Statement 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position

Statement 65 – Items Previously reported as Assets and Liabilities (adopted early, with no material effect)

*Government-Wide Financial Statements:*

The statement of net position 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 only the following balances arising from cash transactions:

- cash-based interfund receivables and payables
- other cash-based receivables/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. In addition, capital assets and long-term debt activity is not reported in the statements of net position.

Program revenues within the statement of activities are derived directly from each activity or from parties outside the Town's taxpayers. The Town has the following program revenues in each activity:

- **General government:** License and permits, rents and royalties and fire subscriptions
- **Public safety:** Fine revenue and operating grants
- **Streets and highways:** Gas excise and commercial vehicle taxes

Business-type activities are also reported on a modified cash basis.

*Governmental Funds:*

The Town's governmental funds are comprised of the following:

**Major Funds:**

- **General Fund** - accounts for all activities not accounted for in other special-purpose funds. For financial reporting purposes it includes the CDBG grant fund and the rural fire fund.
- **Restricted Sales Tax Fund** - accounts for certain sales tax revenue legally restricted for street improvements, capital outlay and ambulance

**Non-Major Funds (Reported as Other Governmental Funds):**

**Special Revenue Funds:**

- Street and Alley Fund - accounts for commercial vehicle tax and gasoline excise tax legally restricted for street and alley repairs and maintenance.
- Library Fund - accounts for all library revenue retained for library use only.
- Juvenile Fund - accounts for fine and forfeiture revenue collected from juveniles retained for use in juvenile programs.
- Snyder Trust Fund - accounts for donations and interest income restricted by a will for the purpose of developing and maintaining a library and museum. Revenues can also be used to support senior citizen activities and 89er activities.

**Capital Project Fund:**

- Cemetery Care Fund - accounts for 12.5 percent of cemetery revenue restricted by State law for cemetery capital improvements.

The governmental funds are reported on a modified cash basis of accounting. Only current financial assets and liabilities are generally 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.

*Proprietary Fund:*

The Town's proprietary fund is comprised of the following accounts:

- Hennessey Utilities Authority Operating Account (HUA) – accounts for the operation of the water, wastewater, and sanitation activities.
- Oklahoma Water Resources Board (OWRB) Loan Account – accounts for the debt service activity of the OWRB loan (included in HUA enterprise fund for reporting purposes).

For purposes of the statement of revenues, expenses and changes in fund net position, 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.

All of the above noted governmental funds are legally required to adopt annual budgets or appropriations. The public trust (or Authority) is not required to adopt legal annual appropriations. While the trust develops an annual budget, it is for financial management purposes and does not constitute legal appropriations.

**C. Cash, Cash Equivalents, and Investments**

Cash and cash equivalents includes all demand and savings accounts, certificates of deposit or short-term investments with an original maturity of three-months or less, and money market accounts. Investments consist of long-term certificates of deposits and are reported at cost.

#### D. 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. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 9.

#### E. Fund Balances and Net Position

##### *Fund Balances:*

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

- a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.
- c. *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.
- d. *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 town board action or management decision when the town board has delegated that authority. Assignment for transfers and interest income for governmental funds are made through budgetary process.
- e. *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.

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.

##### *Net Position:*

Net position is displayed in two components:

- a. *Restricted net position* - Consists of net position with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- b. *Unrestricted net position* - All remaining net position that does not meet the definition of "restricted" or "net investment in capital assets."

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It is the Town's policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

However, due to the City's use of the modified cash basis of accounting, no capital assets or long-term debts are reported, therefore no net position for such transactions are reported.

**Prior Period Adjustment**

Net position was restated due to a change in the modified cash basis of accounting to remove capital assets and long-term debt activity from the statements of net position.

	HUA Operating Account	OWRB Loan Account	Government-Wide	
			Governmental Activities	Business-Type Activities
Beginning net position, as previously reported	\$ 2,565,844	\$ (760,818)	\$ 2,888,729	\$ 1,805,026
Removal of capital assets due to change in basis of accounting	(1,878,557)	-	(1,891,316)	(1,878,557)
Removal of long-term debt due to change in basis of accounting	102,043	825,787	-	927,830
Beginning net positon, restated	<u>\$ 789,330</u>	<u>\$ 64,969</u>	<u>\$997,413</u>	<u>\$854,299</u>

**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 position 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.

**2. Deposits and Investments**

For the year ended June 30, 2013, the Town recognized \$6,231 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the Town's deposits are in demand and short-term time deposits.

At June 30, 2013, the primary government held the following deposits and investments:

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Type	Carrying Value
<b>Deposits:</b>	
Petty cash	\$ 370
Demand deposits	272,222
Time deposits	<u>1,883,960</u>
	<u>\$ 2,156,552</u>
 <b>Reconciliation to Statement of Net Position:</b>	
Cash and cash equivalents	\$ 272,592
Investments	<u>1,883,960</u>
	<u>\$ 2,156,552</u>

*Custody Credit Risk* - Custodial credit risk is the risk that in the event of a bank failure, the government deposits may not be returned to it. The City is governed by the State Public Deposit Act which requires that the City obtain and hold collateral whose fair value exceeds the amount of uninsured deposits. Investment securities are exposed to custody credit risk if the securities are uninsured, are not registered in the name of the government, and if held by either a counterparty or a counterparty's trust, department or agent, but not in the government's name.

As of June 30, 2013, the Town was not exposed to custodial credit risk as defined above.

*Investment Interest Rate Risk* - the Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*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. These investment limitations do not apply to the Town's public trusts.

As of June 30, 2013, the Town did not hold any securities with credit ratings since they are all non-negotiable time deposits.

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

*Restricted Cash and Investments* - The amounts reported as restricted assets on the statement of net position are comprised of amounts restricted for debt service, or meter deposits. The restricted assets as of June 30, 2013 are as follows:

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	Cash and cash equivalents	Investments
Meter Deposit	\$ 52,964	\$ -
OWRB Debt Service	180	68,618
Total	\$ 53,144	\$ 68,618

**3. Fund Balances and Net Position**

The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet and Proprietary Fund Statement of Net Position:

	General Fund	Restricted Sales Tax Fund	Other Governmental Funds	Total
<b>Fund Balance:</b>				
<b>Restricted for:</b>				
Ambulance Operations Sales Tax	\$ -	\$ 259,756	\$ -	\$ 259,756
Street Improvements Sales Tax	-	313,221	-	313,221
Capital Outlay Sales Tax	-	138,963	-	138,963
Street and Alley Purposes	-	-	36,276	36,276
Juvenile Programs	-	-	17,807	17,807
Snyder Trust Fund Purposes	-	-	34,893	34,893
Cemetery Care	-	-	97,952	97,952
Sub-total Restricted	-	711,940	186,928	898,868
<b>Assigned For:</b>				
Ambulance Operations, Street Improvements, Capital Outlay CDBG projects	-	76,457	-	76,457
Library Operations and Capital	35	-	-	35
Fire Operations and Capital	11,896	-	3,692	11,896
Sub-total Assigned	11,931	76,457	3,692	92,080
Unassigned	394,079	-	-	394,079
<b>Total Fund Balance</b>	<b>\$ 406,010</b>	<b>\$ 788,397</b>	<b>\$ 190,620</b>	<b>\$ 1,385,027</b>
<b>Enterprise Fund:</b>				
Restricted for Debt Service	\$ 68,798			

**Restricted Net Position – Governmental Activities:**

There is no net position restricted by enabling legislation.

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**4. Sales Tax Revenue**

Sales tax revenue represents a 3½ cent local tax on each dollar of taxable sales within the Town, of which 1 ½ cent is voter restricted and 2 cents are received and recorded in the General Fund. One and one-half cents are recorded in the Restricted Sales Tax Fund, of which one cent is restricted for ambulance operations, ¼ cent is restricted for street improvements and ¼ cent is restricted for capital outlay per Ordinance #307 passed by voters effective January 2004.

**5. 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.

**6. Internal and Interfund Balances and Transfers**

*Balances:*

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
General Fund	HUA	\$ 59,280	Interfund balance for negative cash
Total		<u>\$ 59,280</u>	

**Reconciliation to Fund Financial Statements:**

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 59,280	\$ -	\$ 59,280
Proprietary Funds	-	(59,280)	(59,280)
Total	<u>\$ 59,280</u>	<u>\$ (59,280)</u>	<u>\$ -</u>

*Transfers:*

There were no internal transfers between funds and activities for the year ended June 30, 2013.

**7. 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. The Town manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

**8. Pension Plan Participation**

The Town of Hennessey participates in one pension or retirement plan:

1. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – a statewide cost-sharing plan

*Firefighter Pension System:*

*Plan Summary Information.* The Town of Hennessey, 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). 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 full-time or volunteer firefighters.

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.

*Funding Policy.* OFPRS plan members that are volunteer firefighters are not required to contribute to the plan. The Town is required by state law to contribute \$60 per year for each volunteer firefighter. The plan is funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary.

The OFPRS contributions are as follows:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Amount Contributed</u>
2011	\$780	\$780
2012	\$780	\$780
2013	\$720	\$720

**9. Commitments and Contingencies**

*Long-term Debt Commitments:*

*Governmental activities* had no long-term debt payable from taxes and other general revenues for June 30, 2013.

*Business-type activities* long-term debt payable from net revenues generated by the utility resources pledged to the debt include the following:

Notes Payable:

Note payable to Oklahoma Water Resources Board, original amount of \$1,417,150, payable in semi-annual installments, including principal and interest at 2.766%, final payment due September 15, 2022.	\$758,836
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Note payable to Oklahoma Water Resources Board, original amount of \$1,800,000, payable in semi-annual installments, including principal and interest at 2.040%, final payment due September 15, 2033.	65,730
Note payable to Oklahoma Department of Commerce, original amount of \$125,000, payable in monthly installments of \$521 with a 0% interest rate, final payment due October 2020.	44,793
Note payable to Pioneer Telephone, original amount of \$85,000, payable in monthly installments of \$708 with a 0% interest rate, final payment due August 2015.	<u>42,500</u>
<b>Total Notes Payable</b>	<b><u>\$ 911,859</u></b>
Current portion	\$ 83,950
Non-current portion	<u>827,909</u>
<b>Total Notes Payable</b>	<b><u>\$911,859</u></b>

*Change in Long-term Debt Commitments:*

<u>Type of Debt</u>	<u>Balance Due July 1, 2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Due June 30, 2012</u>	<u>Amount Due Within One Year</u>
<i>Business-Type Activities:</i>					
Notes Payable	\$ 927,830	\$ 200,357	\$ 216,328	\$ 911,859	\$ 83,950
<b>Total Business-Type Activities</b>	<u>\$ 927,830</u>	<u>\$ 200,357</u>	<u>\$ 216,328</u>	<u>\$ 911,859</u>	<u>\$ 83,950</u>

*Debt Service Requirements to Maturity:*

<u>Year Ending June 30,</u>	<u>Business Type Activities</u>	
	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2014	\$ 128,950	\$ 48,777
2015	176,251	54,976
2016	178,630	50,749
2017	181,087	46,443
2018	183,627	42,055
2019-2023	852,585	141,402
2024-2028	450,000	62,429
2029-2032	360,373	16,295
Totals	<u>\$ 2,511,503</u>	<u>\$ 463,126</u>
Less: OWRB amount to be drawn-down	<u>(1,599,644)</u>	
	<u>\$ 911,859</u>	

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*Utility Net Revenues Pledge:*

The City has pledged future water and sewer net utility revenues to repay the OWRB series note payables of \$1,417,150 and \$1,800,000. Proceeds from the note were for financing the reverse osmosis treatment system and for wastewater system improvements. The note is payable from pledged water and sewer utility revenues of the HUA and are payable through 2022 and 2033, respectively. The total principal and interest payable for the remainder of the life of these notes is \$2,887,335. Pledged water and sewer utility net revenues for the current year were \$527,212. Debt service payments in the current year totaled \$201,579 and were 38.2% of pledged revenues.

*Compensated Absences:*

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2013, is summarized as follows:

- General Fund – Vacation leave \$8,193
- HUA – Vacation leave \$1,473

*Litigation:*

The Town is party to various legal proceedings which normally occur in the course of governmental operations. The financial statements do not include accruals or provisions for loss contingencies that may result from these proceedings. State statutes provide for the levy of an ad valorem tax over a three-year period by a Town "Sinking Fund" for the payment of any court assessed judgment rendered against the Town. These statutory provisions do not apply to the Town's public trust Authorities. While the outcome of the above noted proceedings 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 material adverse effect on the financial condition of the Town.

*Federal and State Award Programs:*

The Town of Hennessey participates in various federal or state grant/loan programs from year to year. In 2013, the Town's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The Town has not been notified of any noncompliance with federal or state award requirements. Any liability or reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

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**SUPPLEMENTARY AND OTHER INFORMATION**

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2013**

	GENERAL FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
<b>Beginning Budgetary Fund Balance:</b>	\$220,000	\$220,000	\$261,815	\$41,815
<b>Resources (Inflows):</b>				
Taxes	628,500	628,500	772,718	144,218
Intergovernmental	5,000	5,000	42,138	37,138
Charges for services	13,000	13,000	25,848	12,848
Fines and Forfeitures	140,000	140,000	152,333	12,333
Licenses and Permits	3,200	3,200	5,005	1,805
Investment Income	800	800	950	150
Miscellaneous	34,000	34,000	42,006	8,006
Transfer In	100,000	100,000	-	(100,000)
<b>Total Resources (Inflows)</b>	<u>924,500</u>	<u>924,500</u>	<u>1,040,998</u>	<u>116,498</u>
<b>Amounts available for appropriation</b>	<u>1,144,500</u>	<u>1,144,500</u>	<u>1,302,813</u>	<u>158,313</u>
<b>Charges to Appropriations (Outflows):</b>				
Managerial	5,621	5,621	5,627	(6)
Administration	91,264	84,364	81,736	2,628
Town Clerk	5,208	5,208	4,951	257
Town Treasurer	4,406	5,306	5,284	22
Town Attorney	10,403	10,403	10,395	8
Municipal Judge	5,859	5,859	5,856	3
Police	381,253	397,353	397,543	(190)
Fire	34,457	30,157	28,083	2,074
Streets	128,680	132,480	132,219	261
Parks	12,200	12,200	11,658	542
Swimming Pool	32,489	36,189	36,123	66
General Government	80,800	77,100	76,914	186
Library	110,235	110,235	104,669	5,566
Cemetery	20,900	11,300	7,676	3,624
<b>Total Charges to Appropriations</b>	<u>923,775</u>	<u>923,775</u>	<u>908,734</u>	<u>15,041</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$220,725</u>	<u>\$220,725</u>	<u>\$394,079</u>	<u>\$173,354</u>

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**Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2013 (Continued)**

	RESTRICTED SALES TAX FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Beginning Budgetary Fund Balance</b>	\$510,000	\$510,000	\$533,948	\$23,948
<b>Resources (Inflows):</b>				
Taxes	390,000	390,000	515,306	125,306
Intergovernmental	15,000	15,000	-	(15,000)
Investment income	2,340	2,340	1,907	(433)
<b>Total Resources (Inflows)</b>	<u>407,340</u>	<u>407,340</u>	<u>517,213</u>	<u>109,873</u>
<b>Amounts available for appropriation</b>	<u>917,340</u>	<u>917,340</u>	<u>1,051,161</u>	<u>133,821</u>
<b>Charges to appropriations (outflows):</b>				
Police	30,000	48,500	48,457	43
EMS	203,620	203,620	203,611	9
Streets	150,000	150,000	2,948	147,052
Library	4,000	4,000	-	4,000
Parks	-	7,800	7,748	52
<b>Total Charges to Appropriations</b>	<u>387,620</u>	<u>413,920</u>	<u>262,764</u>	<u>151,156</u>
<b>Ending Budgetary Fund Balance</b>	<u>\$529,720</u>	<u>\$503,420</u>	<u>\$788,397</u>	<u>\$284,977</u>

**Footnotes to Budgetary Comparison Schedules:**

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require Town Board approval.
3. The General fund budgetary comparison does not include the other combined accounts; see the schedule for combining General fund accounts on page 39 for comparison.

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**NonMajor Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2013**

	<u>Special Revenue Funds</u>				<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Street and Alley Fund</u>	<u>Library Fund</u>	<u>Juvenile Fund</u>	<u>Snyder Trust Fund</u>	<u>Cemetery Care Fund</u>	
<b>ASSETS</b>						
Cash and cash equivalents	\$ 363	\$ 3,692	\$ 2,307	\$ -	\$ 593	\$ 6,955
Investments	35,913	-	15,500	34,893	97,359	183,665
Total assets	<u>\$ 36,276</u>	<u>\$ 3,692</u>	<u>\$ 17,807</u>	<u>\$ 34,893</u>	<u>\$ 97,952</u>	<u>\$ 190,620</u>
<b>FUND BALANCES</b>						
Fund balances:						
Restricted	\$ 36,276	\$ -	\$ 17,807	\$ 34,893	\$ 97,952	\$ 186,928
Assigned	-	3,692	-	-	-	3,692
Total fund balances	<u>36,276</u>	<u>3,692</u>	<u>17,807</u>	<u>34,893</u>	<u>97,952</u>	<u>190,620</u>
Total fund balances	<u>\$ 36,276</u>	<u>\$ 3,692</u>	<u>\$ 17,807</u>	<u>\$ 34,893</u>	<u>\$ 97,952</u>	<u>\$ 190,620</u>

**NonMajor Governmental Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2013**

	<u>Special Revenue Funds</u>				<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Street and Alley Fund</u>	<u>Library Fund</u>	<u>Juvenile Fund</u>	<u>Snyder Trust Fund</u>	<u>Cemetery Care Fund</u>	
<b>REVENUES</b>						
Fees and fines	\$ -	\$ -	\$ 780	\$ -	\$ -	\$ 780
Intergovernmental	19,224	6,022	-	-	-	25,246
Charges for services	-	-	-	-	625	625
Investment income	116	5	-	110	309	540
Miscellaneous	-	6,595	-	-	-	6,595
Total revenues	<u>19,340</u>	<u>12,622</u>	<u>780</u>	<u>110</u>	<u>934</u>	<u>33,786</u>
<b>EXPENDITURES</b>						
Current:						
Streets	19,298	-	-	-	-	19,298
Library	-	12,513	-	-	-	12,513
Capital Outlay	-	-	-	-	1,260	1,260
Total Expenditures	<u>19,298</u>	<u>12,513</u>	<u>-</u>	<u>-</u>	<u>1,260</u>	<u>33,071</u>
Excess (deficiency) of revenues over expenditures	42	109	780	110	(326)	715
Net change in fund balances	42	109	780	110	(326)	715
Fund balances - beginning	36,234	3,583	17,027	34,783	98,278	189,905
Fund balances - ending	<u>\$ 36,276</u>	<u>\$ 3,692</u>	<u>\$ 17,807</u>	<u>\$ 34,893</u>	<u>\$ 97,952</u>	<u>\$ 190,620</u>

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**Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2013**

	<u>General Fund</u>	<u>CDBG Grant Account</u>	<u>Rural Fire Account</u>	<u>Total General Fund</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 62,486	\$ 35	\$ 689	\$ 63,210
Investments	272,313	-	11,207	283,520
Due from other funds	59,280	-	-	59,280
Total assets	<u>\$ 394,079</u>	<u>\$ 35</u>	<u>\$ 11,896</u>	<u>\$ 406,010</u>
<b>FUND BALANCES</b>				
Fund balances:				
Assigned	\$ -	\$ 35	\$ 11,896	\$ 11,931
Unassigned	394,079	-	-	394,079
Total fund balances	<u>394,079</u>	<u>35</u>	<u>11,896</u>	<u>406,010</u>
Total fund balances	<u>\$ 394,079</u>	<u>\$ 35</u>	<u>\$ 11,896</u>	<u>\$ 406,010</u>

**Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund  
Accounts (Modified Cash Basis) – Year Ended June 30, 2013**

	<u>General Fund</u>	<u>CDBG Grant Account</u>	<u>Rural Fire Account</u>	<u>Total General Fund</u>
<b>REVENUES</b>				
Taxes	\$ 772,718	\$ -	\$ -	\$ 772,718
Fees and fines	152,333	-	-	152,333
Licenses and permits	5,005	-	-	5,005
Intergovernmental	42,138	-	-	42,138
Charges for services	25,848	-	150	25,998
Investment income	950	-	36	986
Miscellaneous	42,006	-	-	42,006
Total revenues	<u>1,040,998</u>	<u>-</u>	<u>186</u>	<u>1,041,184</u>
<b>EXPENDITURES</b>				
Current:				
General government	184,907	-	-	184,907
Police	431,482	-	-	431,482
Streets	132,219	-	-	132,219
Library	152,450	-	-	152,450
Cemetery	7,676	-	-	7,676
Total Expenditures	<u>908,734</u>	<u>-</u>	<u>-</u>	<u>908,734</u>
Excess (deficiency) of revenues over expenditures	<u>132,264</u>	<u>-</u>	<u>186</u>	<u>132,450</u>
Net change in fund balances	132,264	-	186	132,450
Fund balances - beginning	261,815	35	11,710	273,560
Fund balances - ending	<u>\$ 394,079</u>	<u>\$ 35</u>	<u>\$ 11,896</u>	<u>\$ 406,010</u>

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**Proprietary Fund Accounts Combining Schedule of Net Position (Modified Cash Basis) – June 30, 2013**

	<u>HUA Operating</u>	<u>OWRB Loan</u> <u>Account</u>	<u>Total</u>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ -	\$ -	\$ -
Investments	709,043	-	709,043
Restricted:			
Cash and cash equivalents	52,964	180	53,144
Investments	-	68,618	68,618
Total current assets	<u>762,007</u>	<u>68,798</u>	<u>830,805</u>
Total assets	<u>762,007</u>	<u>68,798</u>	<u>830,805</u>
<b>LIABILITIES</b>			
Current liabilities:			
Due to other funds	\$ 59,280	\$ -	\$ 59,280
Deposits subject to refund	52,964	-	52,964
Total liabilities	<u>112,244</u>	<u>-</u>	<u>112,244</u>
<b>NET POSITION</b>			
Restricted for debt service	-	68,798	68,798
Unrestricted	649,763	-	649,763
Total net position	<u>\$ 649,763</u>	<u>\$ 68,798</u>	<u>\$ 718,561</u>

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**Proprietary Fund Accounts Combining Schedule of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2013**

	<u>HUA Operating</u>	<u>OWRB Loan Account</u>	<u>Total</u>
<b>REVENUES</b>			
Charges for services:			
Water	\$ 633,271	\$ -	\$ 633,271
Sewer	277,452	-	277,452
Sanitation	269,235	-	269,235
Penalties	17,039	-	17,039
Reconnect fees	5,975	-	5,975
Miscellaneous	14,321	-	14,321
Total operating revenues	<u>1,217,293</u>	<u>-</u>	<u>1,217,293</u>
<b>OPERATING EXPENSES</b>			
General government	68,896	-	68,896
Water	458,772	-	458,772
Wastewater	165,229	-	165,229
Sanitation	266,265	-	266,265
Total operating expenses	<u>959,162</u>	<u>-</u>	<u>959,162</u>
Operating income	<u>258,131</u>	<u>-</u>	<u>258,131</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment income	2,599	199	2,798
Loan proceeds	200,357	-	200,357
Grants and contributions	30,000	-	30,000
Debt Service:			
Principal	(149,377)	(65,949)	(215,326)
Interest	-	(27,921)	(27,921)
Capital Outlay	(518,404)	-	(518,404)
Total non-operating revenue (expenses)	<u>(434,825)</u>	<u>(93,671)</u>	<u>(528,496)</u>
Income (loss) before transfers	<u>(176,694)</u>	<u>(93,671)</u>	<u>(270,365)</u>
Capital contributions	134,627	-	134,627
Transfers in	-	97,500	97,500
Transfers out	(97,500)	-	(97,500)
Change in net assets	<u>(139,567)</u>	<u>3,829</u>	<u>(135,738)</u>
Total net position - beginning, restated	<u>789,330</u>	<u>64,969</u>	<u>854,299</u>
Total net position - ending	<u>\$ 649,763</u>	<u>\$ 68,798</u>	<u>\$ 718,561</u>

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**Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2013**

State Grantor/Pass through agency Grantor/Program Title	CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
<b>FEDERAL AWARDS:</b>				
<b><u>OKLAHOMA WATER RESOURCES BOARD:</u></b>				
Clean Water State Revolving Fund	66.458	ORF-13-0009-CW	\$ 200,357	\$ 200,357
<b>STATE AWARDS:</b>				
<b><u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u></b>				
State Aid FY 13	N/A	N/A	\$ 4,070	\$ 4,070
State Aid FY 12	N/A	N/A	452	452
Collection Enhancement E-Book	N/A	N/A	1,500	1,500
Total Oklahoma Department of Libraries			<u>6,022</u>	<u>6,022</u>
<b><u>NORTHERN OKLAHOMA DEVELOPMENT AUTHORITY:</u></b>				
REAP Grant	N/A	12 REAP FUND KF12-2	30,000	30,000
<b><u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u></b>				
Passed through Eastern Oklahoma Development District Rural Fire Grant	N/A	N/A	4,484	4,484
<b>TOTAL FEDERAL AND STATE AWARDS</b>			<u>\$ 240,863</u>	<u>\$ 240,863</u>

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**Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2013**

	<b>OWRB NOTE</b>
<b>GROSS REVENUE AVAILABLE:</b>	
Charges for services (water and sewer systems)	\$ 1,148,415
Investment income	2,798
<b>Total Gross Revenue Available</b>	<b>1,151,213</b>
<b>OPERATING EXPENDITURES:</b>	
Water	458,772
Sewer	165,229
<b>Total Operating Expenditures</b>	<b>624,001</b>
<b>Net Revenue Available for Debt Service</b>	<b>\$ 527,212</b>
<b>Maximum Annual Debt Service on all Long-Term Debt Secured by Revenues of the System</b>	<b>\$ 216,477</b>
<b>Computed Coverage</b>	<b>244%</b>
<b>Coverage Requirement</b>	<b>125%</b>

**TOWN OF HENNESSEY, OKLAHOMA  
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**INTERNAL CONTROL AND COMPLIANCE**

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

To the Honorable Mayor and Town Board  
Town of Hennessey, Oklahoma

We have audited, in accordance with the 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Hennessey, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Hennessey, Oklahoma's basic financial statements, and have issued our report thereon dated November 1, 2013. Our report included an emphasis-of-a-matter paragraph related to the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

**Internal Control Over Financial Reporting**

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

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Town of Hennessey, Oklahoma'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*.

**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 an 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.

*Arledge & Associates, P.C.*

November 1, 2013