

**THE TOWN OF HENNESSEY,
OKLAHOMA**

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2016

TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

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**TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016**

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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 modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hennessey, Oklahoma (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town'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 fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2016, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in accordance with the modified cash basis of accounting 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 opinions are not modified with respect to this matter.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying supplemental combining schedules – modified cash basis, federal and state awards information, 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 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 schedules and 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 modified cash basis of accounting described in Note 1.

Management's discussion and analysis and the 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2016, on our consideration of the Town'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* in considering the Town's internal control over financial reporting and compliance.



September 26, 2016

TOWN OF HENNESSEY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

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, 2016. 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 \$467,102 and the assets of the Town exceed its liabilities at June 30, 2016, by \$3,040,713 (net position). Of this amount, \$1,528,625 (unrestricted net position) is available to meet the government's ongoing needs.
- At June 30, 2016, the Town's governmental funds reported combined ending fund balances on a modified cash basis of \$2,012,314.
- At the end of fiscal year 2016, unassigned fund balance on a modified cash basis for the General Fund was \$561,037 or 53.0% 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 using the 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 from the Statement of Net Position.

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 uses two kinds of funds – *governmental and proprietary*.

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 also 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 24-34 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, combining and individual financial statements and schedules, a federal and state award schedule and a debt service coverage schedule.

THE TOWN AS A WHOLE

For the year ended June 30, 2016, net position on a modified cash basis for the governmental and business-type activities increased \$467,102.

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, 2016

The Town of Hennessey's Net Position (Modified Cash Basis)
June 30, 2016
(In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
Current assets	\$ 2,012	\$ 1,751	15%	\$ 1,086	\$ 878	24%	\$ 3,098	\$ 2,629	18%
Total assets	<u>2,012</u>	<u>1,751</u>	15%	<u>1,086</u>	<u>878</u>	24%	<u>3,098</u>	<u>2,629</u>	18%
Current liabilities	-	-	-	58	56	3%	58	56	3%
Total liabilities	<u>-</u>	<u>-</u>	-	<u>58</u>	<u>56</u>	3%	<u>58</u>	<u>56</u>	3%
Net position									
Restricted	1,431	1,144	25%	81	77	5%	1,512	1,221	24%
Unrestricted	581	607	-4%	947	745	27%	1,528	1,352	13%
Total net position	<u>\$ 2,012</u>	<u>\$ 1,751</u>	15%	<u>\$ 1,028</u>	<u>\$ 822</u>	25%	<u>\$ 3,040</u>	<u>\$ 2,573</u>	18%

A portion of the Town's net position, \$1,512,088, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$1,528,625, may be used to meet the government's ongoing needs. The 25% increase in Governmental Activities restricted net position was due to a decrease in restricted sales tax expenses. The 24% increase in Business-Type Activities current assets was due to a decrease in expenses.

The Town of Hennessey's Revenues, Expenses and Changes in Net Position (Modified Cash Basis)
Year Ended June 30, 2016
(In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2016	2015		2016	2015		2016	2015	
Revenues									
Charges for services	\$ 212	\$ 146	45%	\$ 1,254	\$ 1,250	0%	\$ 1,466	\$ 1,396	5%
Operating grants and contributions	27	48	-44%	-	-	-	27	48	-44%
Capital grants and contributions	292	135	116%	-	-	-	292	135	116%
Taxes	1,310	1,533	-15%	-	-	-	1,310	1,533	-15%
Intergovernmental revenue	38	38	-	-	-	-	38	38	-
Investment income	5	4	25%	5	5	-	10	9	11%
Miscellaneous	44	91	-52%	36	29	24%	80	120	-33%
Total revenues	<u>1,928</u>	<u>1,995</u>	-3%	<u>1,295</u>	<u>1,284</u>	1%	<u>3,223</u>	<u>3,279</u>	-2%
Expenses									
General government	274	253	8%	-	-	-	274	253	8%
Public safety	661	680	-3%	-	-	-	661	680	-3%
Streets	215	246	-13%	-	-	-	215	246	-13%
Culture and recreation	506	628	-19%	-	-	-	506	628	-19%
Cemetery	11	13	-15%	-	-	-	11	13	-
Water	-	-	-	600	721	-17%	600	721	-17%
Wastewater	-	-	-	216	366	-41%	216	366	-41%
Sanitation	-	-	-	273	275	-1%	273	275	-1%
Total expenses	<u>1,667</u>	<u>1,820</u>	-8%	<u>1,089</u>	<u>1,362</u>	-20%	<u>2,756</u>	<u>3,182</u>	-13%
Change in net position	261	175	49%	206	(78)	364%	467	97	381%
Beginning net position	<u>1,751</u>	<u>1,576</u>	11%	<u>822</u>	<u>900</u>	-9%	<u>2,573</u>	<u>2,476</u>	4%
Ending net position	<u>\$ 2,012</u>	<u>\$ 1,751</u>	15%	<u>\$ 1,028</u>	<u>\$ 822</u>	25%	<u>\$ 3,040</u>	<u>\$ 2,573</u>	18%

TOWN OF HENNESSEY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2016

Governmental Activities

The Town's governmental activities had an increase in net position of \$261,006. The increase is mostly due to grant revenue received in the current year. General Government net expenses increased by 128% in the current year due to grant proceeds in prior year. Public Safety net expenses decreased 17% due to an increase in police fines.

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

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
	General government	\$ 274		\$ 253	8%	
Public safety	661	680	-3%	(481)	(579)	-17%
Streets	215	246	-13%	(197)	(223)	-12%
Culture, parks and recreation	506	628	-19%	(205)	(590)	-65%
Cemetery	11	13	-15%	6	15	-60%
Total	<u>\$ 1,667</u>	<u>\$ 1,820</u>	-8%	<u>\$(1,137)</u>	<u>\$ (1,491)</u>	-24%

Business-type Activities

The business-type activities had an increase in net position of \$206,096. The increase is mostly due to an overall decrease of expenses.

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

	<u>Total Expense of Services</u>		<u>% Inc. (Dec.)</u>	<u>Net Revenue (Expense) of Services</u>		<u>% Inc. (Dec.)</u>
	<u>2016</u>	<u>2015</u>		<u>2016</u>	<u>2015</u>	
	Water	\$ 600		\$ 721	-17%	
Wastewater	216	366	-41%	63	83	-24%
Sanitation	273	275	-1%	11	-	100%
Total	<u>\$ 1,089</u>	<u>\$ 1,362</u>	-20%	<u>\$ 164</u>	<u>\$ 157</u>	4%

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2016 fiscal year, the governmental funds reported a combined fund balance of \$2,012,314. For the year ended June 30, 2016, the General Fund's total fund balance decreased by \$100,495.

Budgetary Highlights

For the year ended June 30, 2016, the General Fund reported actual modified cash basis revenues over final estimates by \$23,323 or a 2.3% positive variance. General Fund actual expenditures were under final appropriations by \$29,510 or a 2.5% positive variance.

The Restricted Sales Tax Fund reported actual modified cash basis revenues over final estimates by \$362,603 or a 75.3% positive variance for the year ended June 30, 2016. Restricted Sales Tax Fund actual expenditures were under final appropriations by \$399,467 or a 46.7% positive variance.

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2017 budget is relatively consistent to prior years.

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, 2016**

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, 2016

Statement of Net Position (Modified Cash Basis)– June 30, 2016

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 449,557	\$ 214,303	\$ 663,860
Investments	1,562,757	871,700	2,434,457
Total assets	<u>2,012,314</u>	<u>1,086,003</u>	<u>3,098,317</u>
LIABILITIES			
Due to depositors	-	57,604	57,604
Total liabilities	<u>-</u>	<u>57,604</u>	<u>57,604</u>
NET POSITION			
Restricted for:			
Ambulance	638,559	-	638,559
Street improvements	452,351	-	452,351
Tourism	97,649	-	97,649
Street and alley	34,211	-	34,211
Juvenile programs	18,940	-	18,940
Snyder trust	35,209	-	35,209
Cemetery	108,801	-	108,801
Capital projects	45,494	-	45,494
Debt service	-	80,874	80,874
Unrestricted	581,100	947,525	1,528,625
Total net position	<u>\$ 2,012,314</u>	<u>\$ 1,028,399</u>	<u>\$ 3,040,713</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, 2016

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2016

Functions/Programs	Program Revenue				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 273,804	\$ 4,315	\$ -	\$ 9,126	\$ (260,363)	\$ -	\$ (260,363)
Public Safety	661,162	176,017	4,290	-	(480,855)	-	(480,855)
Streets	215,375	-	18,668	-	(196,707)	-	(196,707)
Culture and Recreation	505,545	14,359	3,597	282,445	(205,144)	-	(205,144)
Cemetery	11,227	17,000	-	-	5,773	-	5,773
Total governmental activities	<u>1,667,113</u>	<u>211,691</u>	<u>26,555</u>	<u>291,571</u>	<u>(1,137,296)</u>	<u>-</u>	<u>(1,137,296)</u>
Business-Type Activities:							
Water	600,217	690,191	-	-	-	89,974	89,974
Wastewater	215,967	279,413	-	-	-	63,446	63,446
Sanitation	272,785	284,146	-	-	-	11,361	11,361
Total business-type activities	<u>1,088,969</u>	<u>1,253,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>164,781</u>	<u>164,781</u>
Total primary government	<u>\$ 2,756,082</u>	<u>\$ 1,465,441</u>	<u>\$ 26,555</u>	<u>\$ 291,571</u>	<u>(1,137,296)</u>	<u>164,781</u>	<u>(972,515)</u>
General revenues:							
Taxes:							
Sales and use taxes					1,188,813	-	1,188,813
Franchise taxes and public service taxes					81,638	-	81,638
Hotel/motel taxes					40,223	-	40,223
Intergovernmental revenue not restricted to specific programs					38,459	-	38,459
Unrestricted investment earnings					5,202	5,342	10,544
Miscellaneous					43,967	35,973	79,940
Total general revenues					<u>1,398,302</u>	<u>41,315</u>	<u>1,439,617</u>
Change in net position					261,006	206,096	467,102
Net position - beginning					1,751,308	822,303	2,573,611
Net position - ending					<u>\$ 2,012,314</u>	<u>\$ 1,028,399</u>	<u>\$ 3,040,713</u>

See accompanying notes to the basic financial statements.

**TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2016

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 135,724	\$ 291,869	\$ 21,964	\$ 449,557
Investments	436,687	944,900	181,170	1,562,757
Due from other funds	3,350	-	2,623	5,973
Total assets	<u>\$ 575,761</u>	<u>\$ 1,236,769</u>	<u>\$ 205,757</u>	<u>\$ 2,018,287</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	<u>\$ 2,623</u>	<u>\$ 2,716</u>	<u>\$ 634</u>	<u>\$ 5,973</u>
Total liabilities	<u>2,623</u>	<u>2,716</u>	<u>634</u>	<u>5,973</u>
Fund balances:				
Restricted	-	1,234,053	197,161	1,431,214
Assigned	12,101	-	7,962	20,063
Unassigned	561,037	-	-	561,037
Total fund balances	<u>573,138</u>	<u>1,234,053</u>	<u>205,123</u>	<u>2,012,314</u>
Total fund balances	<u>\$ 575,761</u>	<u>\$ 1,236,769</u>	<u>\$ 205,757</u>	<u>\$ 2,018,287</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, 2016

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2016

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 760,960	\$ 549,714	\$ -	\$ 1,310,674
Intergovernmental	51,749	282,445	22,265	356,459
Licenses and permits	4,315	-	-	4,315
Charges for services	27,469	-	3,890	31,359
Fees and fines	174,922	-	1,095	176,017
Investment earnings	1,659	3,018	525	5,202
Miscellaneous	38,184	126	5,783	44,093
Total revenues	<u>1,059,258</u>	<u>835,303</u>	<u>33,558</u>	<u>1,928,119</u>
EXPENDITURES				
Current:				
General government	264,804	-	-	264,804
Public safety	431,211	208,371	553	640,135
Highways and streets	179,334	-	19,006	198,340
Culture and recreation	247,142	-	40,198	287,340
Economic development	-	520	-	520
Cemetery	11,227	-	-	11,227
Capital outlay	17,035	247,712	-	264,747
Total expenditures	<u>1,150,753</u>	<u>456,603</u>	<u>59,757</u>	<u>1,667,113</u>
Excess (deficiency) of revenues over expenditures	<u>(91,495)</u>	<u>378,700</u>	<u>(26,199)</u>	<u>261,006</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	9,000	-	9,000
Transfers out	(9,000)	-	-	(9,000)
Total other financing sources and uses	<u>(9,000)</u>	<u>9,000</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(100,495)	387,700	(26,199)	261,006
Fund balances - beginning	673,633	846,353	231,322	1,751,308
Fund balances - ending	<u>\$ 573,138</u>	<u>\$ 1,234,053</u>	<u>\$ 205,123</u>	<u>\$ 2,012,314</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUND

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Proprietary Fund Statement of Net Position (Modified Cash Basis) – June 30, 2016

	Hennessey Utilities Authority Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 156,519
Investments	791,006
Restricted:	
Cash and cash equivalents	57,784
Investments	80,694
Total assets	<u>1,086,003</u>
 LIABILITIES	
Current liabilities:	
Deposits subject to refund	57,604
Total liabilities	<u>57,604</u>
 NET POSITION	
Restricted for debt service	80,874
Unrestricted	947,525
Total net position	<u>\$ 1,028,399</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, 2016

	Hennessey Utilities Authority Enterprise Fund
REVENUES	
Water	\$ 678,648
Sewer	272,651
Sanitation	277,570
Penalties	19,388
Reconnect fees	5,257
Miscellaneous	36,209
Total operating revenues	<u>1,289,723</u>
OPERATING EXPENSES	
General government	75,226
Water	439,723
Wastewater	143,742
Sanitation	249,840
Total operating expenses	<u>908,531</u>
Operating income	<u>381,192</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment income	5,342
Debt service:	
Principal	(127,073)
Interest	(35,321)
Capital outlay	(18,044)
Total non-operating revenue (expenses)	<u>(175,096)</u>
Change in net position	206,096
Total net position - beginning	822,303
Total net position - ending	<u>\$ 1,028,399</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, 2016

	Hennessey Utilities Authority Enterprise Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,289,723
Payments to suppliers and employees	(908,531)
Receipts of customer meter deposits	7,447
Refunds of customer meter deposits	(5,734)
Net cash provided by operating activities	<u>382,905</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(18,044)
Principal paid on debt	(127,073)
Interest and fiscal agent fees paid on debt	(35,321)
Net cash provided by (used in) capital and related financing activities	<u>(180,438)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(108,546)
Interest and dividends	5,342
Net cash provided by (used in) investing activities	<u>(103,204)</u>
Net increase in cash and cash equivalents	99,263
Balances - beginning of year	<u>115,040</u>
Balances - end of year	<u>\$ 214,303</u>
Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 156,519
Restricted cash and cash equivalents - current	57,784
Total cash and cash equivalents, end of year	<u>\$ 214,303</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 381,192
Adjustments to reconcile operating income to net cash provided by operating activities:	
Change in assets and liabilities:	
Deposits subject to refund	1,713
Net cash provided by operating activities	<u>\$ 382,905</u>

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

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 Authority to the Trustees 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 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 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 financial statements

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

The statements 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

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- 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 also includes the CDBG grant account and the rural fire account.
- 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.

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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 the Hennessey Utility Authority (HUA) Enterprise Fund, which is further 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.

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.

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- 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.”

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.

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.

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2. Deposits and Investments

For the year ended June 30, 2016, the Town recognized \$10,544 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, 2016, the primary government held the following deposits and investments:

Type	Carrying Value
Deposits:	
Petty cash	\$ 370
Demand deposits	663,490
Time deposits	2,434,457
	\$ 3,098,317
 Reconciliation to Statement of Net Position:	
Cash and cash equivalents	\$ 663,860
Investments	2,434,457
	\$ 3,098,317

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 Town 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, 2016, 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 trust.

As of June 30, 2016, the Town did not hold any securities with credit ratings since they are all non-negotiable time deposits.

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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, 2016 are as follows:

	Cash and cash equivalents	Investments
Meter Deposit	\$ 57,604	\$ -
OWRB Debt Service	180	80,694
Total	\$ 57,784	\$ 80,694

3. Fund Balances and Net Position

The following tables show the fund balance and net position 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
Fund Balance:				
Restricted for:				
Ambulance Operations Sales Tax	\$ -	\$ 638,559	\$ -	\$ 638,559
Street Improvements Sales Tax	-	452,351	-	452,351
Capital Outlay	-	45,494	-	45,494
Tourism	-	97,649	-	97,649
Street and Alley Purposes	-	-	34,211	34,211
Juvenile Programs	-	-	18,940	18,940
Snyder Trust Fund Purposes	-	-	35,209	35,209
Cemetery Care	-	-	108,801	108,801
Sub-total Restricted	-	1,234,053	197,161	1,431,214
Assigned For:				
CDBG projects	94	-	-	94
Library Operations and Capital	-	-	7,962	7,962
Rural Fire	12,007	-	-	12,007
Sub-total Assigned	12,101	-	7,962	20,063
Unassigned	561,037	-	-	561,037
Total Fund Balance	\$ 573,138	\$ 1,234,053	\$ 205,123	\$ 2,012,314
Enterprise Fund:				
Restricted for Debt Service	\$ 80,874			

Restricted Net Position – Governmental Activities:

At June 30, 2016, \$1,188,559 net position was restricted by enabling legislation.

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4. Restricted Revenue

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 and emergency medical services, ¼ cent is restricted for street improvements and ¼ cent is restricted for capital outlay per Ordinance #307 passed by voters effective January 2004.

Hotel Tax

Hotel tax restricted for tourism was passed by Ordinance 342 effective August 9, 2012.

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>
Restricted Sales Tax Fund	General Fund	\$ 2,716	Deposit in wrong fund
Street and Alley Fund	General Fund	634	Interfund balance for negative cash
General Fund	Street and Alley Fund	2,623	Interfund balance for sales tax
Total		<u>\$ 5,973</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 5,973	\$ (5,973)	\$ -
Total	<u>\$ 5,973</u>	<u>\$ (5,973)</u>	<u>\$ -</u>

Transfers:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
General fund	Restricted Sales Tax Fund	\$ 9,000	Capital project
Total		<u>\$ 9,000</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 9,000	\$ (9,000)	\$ -
	<u>\$ 9,000</u>	<u>\$ (9,000)</u>	<u>\$ -</u>

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 two pension retirement plans:

1. Oklahoma Firefighter’s Pension and Retirement System (OFPRS) – Statewide Cost-Sharing Plan
2. Oklahoma Municipal Retirement Fund (OkMRF) – Defined Contribution 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>
2014	\$900	\$900
2015	\$900	\$900
2016	\$900	\$900

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Defined Contribution Plan - OkMRF

The Town has provided effective May 1, 2000, a defined contribution plan and trust known as the Town of Hennessey Plan and Trust (the "Plan") in the form of the Oklahoma Municipal Retirement System Master Defined Contribution Plan (OkMRF). OkMRF operations are supervised by a nine-member Board of Trustees elected by the participating municipalities. The plan is administered by JP Morgan Chase of Oklahoma City. The OkMRF Plan issues a separate financial report that may be obtained from OkMRF. The defined contribution plan is available to all full-time employees. According to the Plan, the maximum combined contribution is 25% of the employee's gross wages. The Town, as employer, contributes an amount equal to 2% of the employee's gross wages toward the maximum of 25%. If an employee terminates before coming fully vested, the employer's contributions are forfeited and may be used to reduce the Town's current period contribution requirements. The authority to establish and amend the provisions of the Plan rests with the Town Board of Trustees. For the year ended June 30, 2016, the required contributions to be made was \$12,431 for the employer portion and employees' contributed \$5,515.

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, 2016.

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.	\$501,813
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.	1,549,823
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.	26,043
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 2018.	<u>17,000</u>
Total Notes Payable	<u>\$ 2,094,679</u>
Current portion	\$ 181,087
Non-current portion	<u>1,913,592</u>
Total Notes Payable	<u>\$2,094,679</u>

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Change in Long-term Debt Commitments:

<u>Type of Debt</u>	<u>Balance Due July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance Due June 30, 2016</u>	<u>Amount Due Within One Year</u>
<i>Business-Type Activities:</i>					
Notes Payable	\$ 2,221,752	\$ -	\$ 127,073	\$ 2,094,679	\$ 181,087
Total Business-Type Activities	<u>\$ 2,221,752</u>	<u>\$ -</u>	<u>\$ 127,073</u>	<u>\$ 2,094,679</u>	<u>\$ 181,087</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>
2017	181,087	46,443
2018	183,627	42,055
2019	177,750	37,583
2020	181,504	33,023
2021	177,012	28,374
2022-2026	543,876	85,425
2027-2031	450,000	34,700
2032	199,823	1,021
Totals	<u>\$ 2,094,679</u>	<u>\$ 308,624</u>

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 \$2,360,260. Pledged water and sewer utility net revenues for the current year were \$434,030. Debt service payments in the current year totaled \$144,034 and were 33.2% 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, 2016, is summarized as follows:

- General Fund – Vacation leave \$13,563
- HUA – Vacation leave \$4,123

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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 Authority. 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 2016, 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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As of and for the Year Ended June 30, 2016

SUPPLEMENTARY AND OTHER INFORMATION

TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2016

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2016

	GENERAL FUND			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Beginning Budgetary Fund Balance:	\$647,000	\$647,000	661,567	\$14,567
Resources (Inflows):				
Taxes	749,500	749,500	760,960	11,460
Intergovernmental	6,500	6,500	42,749	36,249
Charges for services	15,000	15,000	27,469	12,469
Fines and Forfeitures	140,000	140,000	174,922	34,922
Licenses and Permits	4,200	4,200	4,315	115
Investment Income	1,200	1,200	1,624	424
Miscellaneous	60,500	60,500	38,184	(22,316)
Transfer In	50,000	50,000	-	(50,000)
Total Resources (Inflows)	<u>1,026,900</u>	<u>1,026,900</u>	<u>1,050,223</u>	<u>23,323</u>
Amounts available for appropriation	<u>1,673,900</u>	<u>1,673,900</u>	<u>1,711,790</u>	<u>37,890</u>
Charges to Appropriations (Outflows):				
Managerial	5,621	5,671	5,665	6
Administration	142,421	143,021	143,021	-
Town Clerk	5,208	5,208	5,208	-
Town Treasurer	4,406	4,906	4,836	70
Municipal Judge	5,860	5,910	5,867	43
Police	390,550	395,050	392,983	2,067
Fire	35,932	35,932	32,361	3,571
Streets	166,334	210,369	196,369	14,000
Parks	41,400	67,000	63,776	3,224
Swimming Pool	40,238	59,138	57,104	2,034
General Government	94,750	106,450	106,074	376
Library	129,688	129,688	126,262	3,426
Cemetery	11,920	11,920	11,227	693
Total Charges to Appropriations	<u>1,074,328</u>	<u>1,180,263</u>	<u>1,150,753</u>	<u>29,510</u>
Ending Budgetary Fund Balance	<u><u>\$599,572</u></u>	<u><u>\$493,637</u></u>	<u><u>\$561,037</u></u>	<u><u>\$67,400</u></u>

**TOWN OF HENNESSEY, OKLAHOMA
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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2016 (Continued)

	RESTRICTED SALES TAX FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$510,000	\$510,000	\$846,353	\$336,353
Resources (Inflows):				
Taxes	480,000	480,000	549,714	69,714
Intergovernmental	-	-	282,445	282,445
Investment income	1,700	1,700	3,018	1,318
Miscellaneous	-	-	126	126
Transfers from other funds	-	-	9,000	9,000
Total Resources (Inflows)	<u>481,700</u>	<u>481,700</u>	<u>844,303</u>	<u>362,603</u>
Amounts available for appropriation	<u>991,700</u>	<u>991,700</u>	<u>1,690,656</u>	<u>698,956</u>
Charges to appropriations (outflows):				
Police	25,300	62,100	25,777	36,323
Tourism	3,000	3,000	520	2,480
EMS	203,620	203,670	203,621	49
Streets	350,000	350,000	-	350,000
Library	10,000	10,000	-	10,000
General Government	-	9,500	9,000	500
Parks	212,000	217,800	217,685	115
Total Charges to Appropriations	<u>803,920</u>	<u>856,070</u>	<u>456,603</u>	<u>399,467</u>
Ending Budgetary Fund Balance	<u>\$187,780</u>	<u>\$135,630</u>	<u>\$1,234,053</u>	<u>\$1,098,423</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, 2016

	<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>	
ASSETS						
Cash and cash equivalents	\$ -	\$ 7,962	\$ 3,440	\$ -	\$ 10,562	\$ 21,964
Investments	32,222	-	15,500	35,209	98,239	181,170
Due from other funds	2,623	-	-	-	-	2,623
Total assets	<u>\$ 34,845</u>	<u>\$ 7,962</u>	<u>\$ 18,940</u>	<u>\$ 35,209</u>	<u>\$ 108,801</u>	<u>\$ 205,757</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	\$ 634	\$ -	\$ -	\$ -	\$ -	\$ 634
Total liabilities	<u>634</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>634</u>
Fund balances:						
Restricted	34,211	-	18,940	35,209	108,801	197,161
Assigned	-	7,962	-	-	-	7,962
Total fund balances	<u>34,211</u>	<u>7,962</u>	<u>18,940</u>	<u>35,209</u>	<u>108,801</u>	<u>205,123</u>
Total liabilities and fund balances	<u>\$ 34,845</u>	<u>\$ 7,962</u>	<u>\$ 18,940</u>	<u>\$ 35,209</u>	<u>\$ 108,801</u>	<u>\$ 205,757</u>

NonMajor Governmental Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2016

	<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>	
REVENUES						
Fees and fines	\$ -	\$ -	\$ 1,095	\$ -	\$ -	\$ 1,095
Intergovernmental	18,668	3,597	-	-	-	22,265
Charges for services	-	-	-	-	3,890	3,890
Investment income	97	7	-	106	315	525
Miscellaneous	-	5,683	-	-	100	5,783
Total revenues	<u>18,765</u>	<u>9,287</u>	<u>1,095</u>	<u>106</u>	<u>4,305</u>	<u>33,558</u>
EXPENDITURES						
Current:						
Police	-	-	553	-	-	553
Streets	19,006	-	-	-	-	19,006
Library	-	40,198	-	-	-	40,198
Total Expenditures	<u>19,006</u>	<u>40,198</u>	<u>553</u>	<u>-</u>	<u>-</u>	<u>59,757</u>
Excess (deficiency) of revenues over expenditures	<u>(241)</u>	<u>(30,911)</u>	<u>542</u>	<u>106</u>	<u>4,305</u>	<u>(26,199)</u>
Net change in fund balances	(241)	(30,911)	542	106	4,305	(26,199)
Fund balances - beginning	34,452	38,873	18,398	35,103	104,496	231,322
Fund balances - ending	<u>\$ 34,211</u>	<u>\$ 7,962</u>	<u>\$ 18,940</u>	<u>\$ 35,209</u>	<u>\$ 108,801</u>	<u>\$ 205,123</u>

**TOWN OF HENNESSEY, OKLAHOMA
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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2016

	<u>General Fund</u>	<u>CDBG Grant Account</u>	<u>Rural Fire Account</u>	<u>Total General Fund</u>
ASSETS				
Cash and cash equivalents	\$ 134,932	\$ 94	\$ 698	\$ 135,724
Investments	425,378	-	11,309	436,687
Due from other funds	3,350	-	-	3,350
Total assets	<u>\$ 563,660</u>	<u>\$ 94</u>	<u>\$ 12,007</u>	<u>\$ 575,761</u>
FUND BALANCES				
Liabilities:				
Due to other funds	\$ 2,623	\$ -	\$ -	\$ 2,623
Total liabilities	<u>2,623</u>	<u>-</u>	<u>-</u>	<u>2,623</u>
FUND BALANCES				
Assigned	-	94	12,007	12,101
Unassigned	561,037	-	-	561,037
Total fund balances	<u>561,037</u>	<u>94</u>	<u>12,007</u>	<u>573,138</u>
Total fund balances	<u>\$ 563,660</u>	<u>\$ 94</u>	<u>\$ 12,007</u>	<u>\$ 575,761</u>

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2016

	<u>General Fund</u>	<u>CDBG Grant Account</u>	<u>Rural Fire Account</u>	<u>Total General Fund</u>
REVENUES				
Taxes	\$ 760,960	\$ -	\$ -	\$ 760,960
Fees and fines	174,922	-	-	174,922
Licenses and permits	4,315	-	-	4,315
Intergovernmental	42,749	9,000	-	51,749
Charges for services	27,469	-	-	27,469
Investment income	1,624	1	34	1,659
Miscellaneous	38,184	-	-	38,184
Total revenues	<u>1,050,223</u>	<u>9,001</u>	<u>34</u>	<u>1,059,258</u>
EXPENDITURES				
Current:				
General government	264,804	-	-	264,804
Police	431,211	-	-	431,211
Streets	179,334	-	-	179,334
Library	247,142	-	-	247,142
Cemetery	11,227	-	-	11,227
Capital Outlay	17,035	-	-	17,035
Total Expenditures	<u>1,150,753</u>	<u>-</u>	<u>-</u>	<u>1,150,753</u>
Excess (deficiency) of revenues over expenditures	<u>(100,530)</u>	<u>9,001</u>	<u>34</u>	<u>(91,495)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(9,000)	-	(9,000)
Total other financing sources and uses	<u>-</u>	<u>(9,000)</u>	<u>-</u>	<u>(9,000)</u>
Net change in fund balances	(100,530)	1	34	(100,495)
Fund balances - beginning	661,567	93	11,973	673,633
Fund balances - ending	<u>\$ 561,037</u>	<u>\$ 94</u>	<u>\$ 12,007</u>	<u>\$ 573,138</u>

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HUA Enterprise Fund Accounts Combining Schedule of Net Position (Modified Cash Basis) – June 30, 2016

	Enterprise Funds		
	HUA Operating	OWRB Loan Account	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 156,519	\$ -	\$ 156,519
Investments	791,006	-	791,006
Restricted:			
Cash and cash equivalents	57,604	180	57,784
Investments	-	80,694	80,694
Total assets	<u>1,005,129</u>	<u>80,874</u>	<u>1,086,003</u>
LIABILITIES			
Current liabilities:			
Deposits subject to refund	57,604	-	57,604
Total liabilities	<u>57,604</u>	<u>-</u>	<u>57,604</u>
NET POSITION			
Restricted for debt service	-	80,874	80,874
Unrestricted	947,525	-	947,525
Total net position	<u>\$ 947,525</u>	<u>\$ 80,874</u>	<u>\$ 1,028,399</u>

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HUA Enterprise Fund Accounts Combining Schedule of Revenues, Expenses and Changes in Net Position (Modified Cash Basis) – Year Ended June 30, 2016

	<u>HUA Operating</u>	<u>OWRB Loan Account</u>	<u>Total</u>
REVENUES			
Charges for services:			
Water	\$ 678,648	\$ -	\$ 678,648
Sewer	272,651	-	272,651
Sanitation	277,570	-	277,570
Penalties	19,388	-	19,388
Reconnect fees	5,257	-	5,257
Miscellaneous	36,209	-	36,209
Total operating revenues	<u>1,289,723</u>	<u>-</u>	<u>1,289,723</u>
OPERATING EXPENSES			
General government	75,226	-	75,226
Water	439,723	-	439,723
Wastewater	143,742	-	143,742
Sanitation	249,840	-	249,840
Total operating expenses	<u>908,531</u>	<u>-</u>	<u>908,531</u>
Operating income	<u>381,192</u>	<u>-</u>	<u>381,192</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	5,121	221	5,342
Debt Service:			
Principal	(36,337)	(90,736)	(127,073)
Interest	(32,472)	(2,849)	(35,321)
Capital Outlay	(18,044)	-	(18,044)
Total non-operating revenue (expenses)	<u>(81,732)</u>	<u>(93,364)</u>	<u>(175,096)</u>
Income (loss) before interaccount transfers	<u>299,460</u>	<u>(93,364)</u>	<u>206,096</u>
Interaccount transfers in	-	97,500	97,500
Interaccount transfers out	(97,500)	-	(97,500)
Change in net position	201,960	4,136	206,096
Total net position - beginning	745,565	76,738	822,303
Total net position - ending	<u>\$ 947,525</u>	<u>\$ 80,874</u>	<u>\$ 1,028,399</u>

**TOWN OF HENNESSEY, OKLAHOMA
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Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2016

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
FEDERAL AWARDS:				
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:</u>				
ODOC Community Block Grant	14.228	16382 CDBG CIP15	\$ 20,000	\$ 9,000
<u>INSTITUTE OF MUSEUM & LIBRARY SERVICES:</u>				
Passed through Oklahoma Department of Libraries FY 15 Lego STEM Grant	45.310	-	<u>16,123</u>	<u>16,123</u>
TOTAL FEDERAL AWARDS:			<u>\$ 36,123</u>	<u>\$ 25,123</u>
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
State Aid FY 15 Total Oklahoma Department of Libraries	N/A	N/A	<u>\$ 3,597</u>	<u>\$ 3,597</u>
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Rural Fire Grant	N/A	N/A	<u>4,290</u>	<u>4,290</u>
TOTAL STATE AWARDS			<u>\$ 7,887</u>	<u>\$ 7,887</u>

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Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2016

	OWRB NOTE
GROSS REVENUE AVAILABLE:	
Charges for services (water and sewer systems)	\$ 1,012,153
Investment income	5,342
	1,017,495
OPERATING EXPENDITURES:	
Water	439,723
Sewer	143,742
	583,465
Net Revenue Available for Debt Service	\$ 434,030
Maximum Annual Debt Service on all Long-Term Debt Secured by Revenues of the System	\$ 216,748
Computed Coverage	200%
Coverage Requirement	125%

**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 Council
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, each major fund, and the aggregate remaining fund information of the Town of Hennessey, Oklahoma (the "Town") as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 26, 2016. Our report included an emphasis-of-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'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 the Town'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.

September 26, 2016