

**TOWN OF HARDESTY, OKLAHOMA**  
**ANNUAL FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2012**

---

---

TOWN OF HARDESTY, OKLAHOMA  
 TABLE OF CONTENTS  
 YEAR ENDED JUNE 30, 2012

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-2
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-5
Government-Wide Financial Statements:	6
Statement of Net Assets - Modified Cash Basis	7
Statement of Activities - Modified Cash Basis	8
Fund Financial Statements:	9
Balance Sheet - Modified Cash Basis - Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Modified Cash Basis - Governmental Funds	11
Statement of Net Assets - Modified Cash Basis - Proprietary Fund	12
Statement of Revenues, Expenses and Changes in Net Assets - Modified Cash Basis - Proprietary Fund	13
Statement of Cash Flows - Modified Cash Basis - Proprietary Fund	14
Notes to Financial Statements	15-22
Supplementary Information:	23
Schedule of Federal and State Financial Awards	24

# Kimberlye R. Mayer, CPA, P.C.

735 West Doolin

Blackwell, OK 74631

(580) 363-1453  
Fax (580) 363-0068

## Independent Auditor's Report

The Board of Trustees  
Town of Hardesty, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hardesty, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Hardesty, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

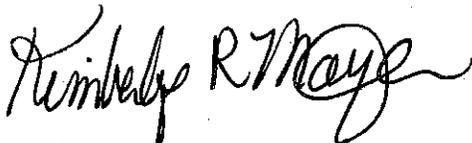
Due to the nature of the Town's records for the waterline system, we were unable to satisfy ourselves as to the original cost of this item in the accompanying financial statements.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary if we had been able to substantiate the original cost of the waterline system, 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 Hardesty, Oklahoma, as of June 30, 2012, and the respective changes in financial position - modified cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 23, 2013 on our consideration of the Town of Hardesty's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to

provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The schedule of federal and state financial awards is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of federal and state financial awards has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole on the basis of accounting described in Note 1.

A handwritten signature in black ink that reads "Kimberley R. Mayer". The signature is written in a cursive style with a large, stylized initial "K".

Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
January 23, 2013

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

The Board of Trustees  
Town of Hardesty, Oklahoma

We have audited the financial statements of the Town of Hardesty, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated January 23, 2013. 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. The financial statements were prepared on the modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The auditor's report is qualified due to the lack of sufficient evidence on the cost of the waterline system.

---

Internal Control Over Financial Reporting

Management of Town of Hardesty, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Hardesty, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Hardesty, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Hardesty, Oklahoma's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Hardesty, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 were required to be reported under *Government Auditing Standards*.

Town of Hardesty's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Town's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, board of trustees, others within the Town, and is not intended to be and should not be used by anyone other than these specified parties.



---

Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
January 23, 2013

TOWN OF HARDESTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED JUNE 30, 2012

**Material Weakness Communicated In Prior Year:**

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

**Criteria:**

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

**Condition:**

Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; and maintaining billing registers. Only limited oversight is provided over this individual in the conduct of their daily functions.

---

**Cause:**

The entity's limited size has made it difficult for management to fully segregate the duties.

**Effect or Potential Effect:**

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

**Recommendation:**

The trustees should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

**Board's Response:**

The trustees has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

---

TOWN OF HARDESTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
MODIFIED CASH BASIS  
JUNE 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 45,296	\$ 15,213	\$ 60,509
USDA - RD Reserve account		1,298	1,298
Capital assets (Note 2):			
Capital assets (net of accumulated depreciation)	46,163	307,934	354,097
Construction in progress		486,553	486,553
Total Assets	<u>91,459</u>	<u>810,998</u>	<u>902,457</u>
<b>Liabilities:</b>			
Customer meter deposits		10,677	10,677
Notes payable (Note 3)		214,913	214,913
Total Liabilities		<u>225,590</u>	<u>225,590</u>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt		579,574	579,574
Unrestricted	91,459	5,834	97,293
Total Net Assets	<u>\$ 91,459</u>	<u>\$ 585,408</u>	<u>\$ 676,867</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF HARDESTY, OKLAHOMA  
STATEMENT OF ACTIVITIES  
MODIFIED CASH BASIS  
YEAR ENDED JUNE 30, 2012

Function/Program	Program Revenue			Net (Expense) Revenue & Changes in Net Assets		
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
<b>Governmental activities:</b>						
General Government	\$ 52,550	\$ 7,413	\$	\$ (52,550)	\$	\$ (52,550)
Public Safety	4,439	7,413		15,551		15,551
Total government activities	<u>56,989</u>	<u>7,413</u>		<u>(36,999)</u>		<u>(36,999)</u>
<b>Business-type activities:</b>						
Administration	138,398				(138,398)	(138,398)
Water	20,730				43,486	43,486
Sewer	2,033		284,868		310,893	310,893
Gas	31,864				21,585	21,585
Sanitation	25,755				14,365	14,365
Total business-type activities	<u>218,780</u>		<u>284,868</u>		<u>251,931</u>	<u>251,931</u>
Total government	<u>\$ 275,769</u>	<u>\$ 7,413</u>	<u>\$ 284,868</u>	<u>\$ (36,999)</u>	<u>\$ 251,931</u>	<u>\$ 214,932</u>
<b>General Revenues:</b>						
<b>Taxes:</b>						
Sales taxes				32,475		32,475
Franchise taxes				5,114		5,114
Gas and vehicle taxes				2,362		2,362
Other taxes				8,021		8,021
Investment income				70	23	93
Miscellaneous				5,201	5,038	10,239
Total general revenues				<u>53,243</u>	<u>5,061</u>	<u>58,304</u>
Change in net assets before transfers				16,244	256,992	273,236
<b>Transfers in (out)</b>						
Change in net assets				(4,147)	4,147	273,236
Net assets - beginning of year				12,097	261,139	403,631
Net assets - end of year				79,362	324,269	676,867

FUND FINANCIAL STATEMENTS

TOWN OF HARDESTY, OKLAHOMA  
BALANCE SHEET  
MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2012

	General Fund
<b>Assets:</b>	
Cash and cash equivalents	\$ 45,296
Total Assets	45,296
<b>Liabilities and Fund Balances:</b>	
Liabilities:	
Fund balances:	
Nonspendable	
Restricted	
Committed	
Assigned	11,773
Unassigned	33,523
Total Fund Balances	45,296
<b>Reconciliation to Statement of Net Assets:</b>	
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities of \$242,932, net of accumulated depreciation of \$196,769, are not financial resources and, therefore, are not reported in the funds.	46,163
Net assets of governmental activities	\$ 91,459

The accompanying report and notes are an integral part of these financial statements.

TOWN OF HARDESTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012

	<u>General Fund</u>
<b>REVENUES:</b>	
Taxes	\$ 47,972
Fines	12,577
Investment income	70
Grants	4,413
Miscellaneous	8,201
Total Revenues	<u>73,233</u>
 <b>EXPENDITURES:</b>	
Current:	
General Government	42,168
Police Department	1,568
Fire Department	2,871
Total Expenditures	<u>46,607</u>
Excess (deficiencies) of revenues over expenditures	26,626
 <b>OTHER FINANCING SOURCES (USES):</b>	
Transfers in (out)	<u>(4,147)</u>
Net changes in fund balances	22,479
Fund balances, beginning of year	<u>22,817</u>
Fund balances, end of year	<u>\$ 45,296</u>
 <b>RECONCILIATION TO THE STATEMENT OF ACTIVITIES:</b>	
Net changes in fund balances - total governmental funds	\$ 22,479
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital asset purchases capitalized	
Depreciation expense	(10,382)
	<u>(10,382)</u>
Change in Net Assets of Governmental Activities	<u>\$ 12,097</u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF HARDESTY, OKLAHOMA  
STATEMENT OF NET ASSETS  
MODIFIED CASH BASIS  
PROPRIETARY FUND  
JUNE 30, 2012

	<u>Municipal Authority Enterprise Fund</u>
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 15,213
USDA - RD Reserve Account	1,298
Total Current Assets	<u>16,511</u>
Noncurrent Assets:	
Capital assets, net of accumulated depreciation	307,934
Construction in progress	486,553
Total Noncurrent Assets	<u>794,487</u>
Total Assets	810,998
Liabilities:	
Current Liabilities:	
Notes payable (Note 3)	8,055
Noncurrent liabilities:	
Customer meter deposits	10,677
Notes payable (Note 3)	206,858
Total Noncurrent Liabilities	<u>217,535</u>
Total Liabilities	<u>225,590</u>
Net Assets:	
Invested in capital assets, net of related debt	579,574
Unrestricted	5,834
Total Net Assets	<u><u>\$ 585,408</u></u>

The accompanying report and notes are an integral part of these financial statements.

TOWN OF HARDESTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN NET ASSETS - MODIFIED CASH BASIS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012

	Municipal Authority Enterprise Fund
Operating Revenues:	
Charges for services:	
Water	\$ 64,216
Sewer	28,058
Gas	53,449
Sanitation	40,120
Other income	5,038
Total Operating Revenues	190,881
Operating Expenses:	
Administration costs	91,301
Water Department	15,491
Sewer Department	633
Gas Department	31,864
Sanitation Department	25,755
Depreciation	47,097
Total Operating Costs	212,141
Operating income (loss)	(21,260)
Non-Operating Revenues (Expenses)	
Interest income	23
Interest expense	(6,639)
Grants	284,868
Total Non-Operating Revenues (Expenses)	278,252
Changes in Net Assets	256,992
Transfers in	4,147
Net Assets, beginning of year	324,269
Net Assets, end of year	\$ 585,408

The accompanying report and notes are an integral part of these financial statements.

TOWN OF HARDESTY, OKLAHOMA  
STATEMENT OF CASH FLOWS  
MODIFIED CASH BASIS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2012

Cash Flows From Operating Activities:

Cash received from customers	\$ 190,881
Cash payments to employees	(53,191)
Cash payments to suppliers for goods and services	(111,853)
Net cash provided (used) by Operating Activities	25,837

Cash Flows From Non-Capital Financing Activities:

Cash Flows From Capital And Related Financing Activities:

Transfers in (out)	4,147
(Increase) in Reserve account	(1,498)
Acquisition and construction of capital assets	(407,946)
Principle payments	(3,927)
Loan proceeds	115,900
Interest payments	(6,639)
Grants received	284,868
Net cash provided (used) by Financing Activities	(15,095)

Cash Flows From Investing Activities:

Interest on cash and investments	23
Increase (decrease) in meter accounts	425
Net cash provided (used) by Investing Activities	448

Net increase (decrease) in cash and cash equivalents 11,190

Beginning cash and cash equivalents 4,023  
Ending cash and cash equivalents \$ 15,213

Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:

Income (Loss) from operations	(21,260)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	47,097
	47,097

Net cash provided (used) by operating activities \$ 25,837

The accompanying report and notes are an integral part of these financial statements.

TOWN OF HARDESTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting Entity

The Town of Hardesty, Oklahoma (Town) operates under the Town Board of Trustees form of government and provides the following services as authorized by its charter: public safety, streets, public improvements, recreation, planning and zoning, and general administration. The Town's financial reporting entity is composed of the following:

Primary Government: Town of Hardesty, Oklahoma  
Blended Component Unit: Town of Hardesty, Oklahoma Municipal Authority

Blended Component Unit

The Hardesty Municipal Authority (HMA), an entity legally separate from the Town but having the Town as its beneficiary, is governed by the same board of trustees as governs the Town. For financial reporting purposes, the HMA is reported as if it were part of the Town's operations because its primary purpose is to finance and provide water, sewer, and trash services to the citizens of the Town.

Basis of Presentation

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitutes its assets, liabilities, fund equity, revenues, and expenditures/expenses. Funds are organized into two major categories: governmental and proprietary. The Town presently has no fiduciary funds. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues, or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds for that category or type; and

TOWN OF HARDESTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprises fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

Governmental Funds:

The General Fund is the primary operating fund of the Town and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds.

Proprietary Funds

The enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the Municipal Authority Fund. This fund is used to account for the activities in providing water, sewer, and sanitation services to the public.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities and the fund financial statements, governmental and business-like activities are presented using a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and propriety fund statements. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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 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.

Budget Policy and Practice

An annual budget is submitted to the Town Trustees for review, and public hearings are held to address the budget. Once the budget is approved, the Town Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

TOWN OF HARDESTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

Revenues are budgeted by source, and expenditures are budgeted by department and class as follows: personal services, materials and supplies, other services and charges, and capital outlay. This constitutes the legal level of control. Expenditures may not exceed appropriations at this level. Budget revisions are subject to final review by the Town Trustees.

The budget for the operating funds is prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures are budgeted in the year that the applicable purchase orders is expected to be paid. The actual financial statements are reported on the modified cash basis.

Budget and Budgetary Accounting

The Town adopts annual budgets for the general and proprietary funds.

Cash and Cash Equivalents

For the purpose of financial reporting, cash and cash equivalents includes all demand and savings accounts and deposits with a maturity of three months or less.

NOTE 2 – PROPERTY AND EQUIPMENT:

The Town's modified cash basis of accounting reports capital assets resulting from cash transactions and reports depreciation where appropriate. The accounting treatment over property, plant, and equipment (capital assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

In the government-wide financial statements, capital assets arising from cash transactions are accounted for as assets in the Statement of Net Assets. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable.

Depreciation of all exhaustible capital assets arising from cash transactions is recorded as an expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

In the fund financial statements, capital assets arising from cash transactions acquired for use in governmental fund operations, are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets acquired for use in proprietary fund operations are accounted for the same as in the government-wide statements.

TOWN OF HARDESTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

NOTE 2 – PROPERTY AND EQUIPMENT (continued):

Capital asset activity, resulting from modified cash basis transactions, for the fiscal year ended June 30, 2012 was as follows:

	Balance at 06/30/11	Additions	Deductions	Balance at 06/30/12
<b>Governmental activities:</b>				
Fire Department	\$ 5,153	\$	\$	\$ 5,153
Police Department	69,142		(51,681)	17,461
Land	11,000			11,000
Buildings	120,000			120,000
Machinery and equipment	89,318			89,318
Totals	<u>294,613</u>		<u>(51,681)</u>	<u>242,932</u>
<b>Less accumulated depreciation:</b>				
Fire Department	5,153			5,153
Police Department	69,142		(51,681)	17,461
Buildings	91,453	4,800		96,253
Machinery and equipment	72,320	5,582		77,902
Totals	<u>238,068</u>	<u>10,382</u>	<u>(51,681)</u>	<u>196,769</u>
Capital assets, net	<u>\$ 56,545</u>	<u>\$ 10,382</u>	<u>\$ (51,681)</u>	<u>\$ 46,163</u>
<b>Business-type activities:</b>				
Land	\$ 7,000	\$	\$	\$ 7,000
Buildings	97,485			97,485
Equipment	69,143			69,143
Water, utility & sewer system	1,192,610			1,192,610
Totals	<u>1,366,238</u>			<u>1,366,238</u>
<b>Less accumulated depreciation:</b>				
Buildings	72,254	3,145		75,399
Equipment	55,721	9,877		65,598
Water, utility & sewer system	883,232	34,075		917,307
Totals	<u>1,011,207</u>	<u>47,097</u>		<u>1,058,304</u>
Capital assets, net	<u>\$ 355,031</u>	<u>\$ (47,097)</u>	<u>\$</u>	<u>\$ 307,934</u>

TOWN OF HARDESTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2012

NOTE 3 – LONG TERM DEBT:

All long –term debt arising from cash basis transactions to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements.

Long-term debt arising from cash basis transactions of governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. The accounting for proprietary funds is the same in the fund financial statements as the treatment in the government-wide statements.

There is no long-term debt at June 30, 2012 as the result of governmental activities. The long-term debt arising from cash transactions, payable from proprietary fund resources consisted of the following:

Refundable deposits reported as a liability within the Statement of Net Assets are utility deposits.	\$ 10,677
--	-----------

Loans with USDA-Rural Development for water system improvements. Collateral for these loans is all utility revenues. The interest rate on both loans is 5%. The loans mature on July 23, 2033 and January 23, 2033, and monthly payments for both loans are \$737.	91-01 \$ 81,834
	91-02 \$ 20,971

Loan with USDA-Rural Development for sewer system improvements. Collateral for this loan is all utility payments. The interest rate is 3.375% and the monthly payments are \$441. This loan matures on July 24, 2051.	92-04 \$ 112,108
---	------------------

The following is a summary of changes in long-term debt for the year ended June 30, 2012:

	<u>Balance 6/30/11</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 06/30/12</u>	<u>Amounts Due Within One Year</u>
Loans	\$ 106,511	\$ 115,900	\$ (7,498)	\$ 214,913	\$ 8,055
Refundable deposits	10,252	4,175	(3,750)	10,677	
Totals	<u>\$ 116,763</u>	<u>\$ 120,075</u>	<u>\$ (11,248)</u>	<u>\$ 225,590</u>	<u>\$ 8,055</u>

TOWN OF HARDESTY, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2012

NOTE 3 - LONG TERM DEBT (continued):

The following is a schedule of the loan payments:

	<u>91-04</u>	<u>91-02</u>	<u>92-04</u>
6/30/13	\$ 7,080	\$ 1,764	\$ 5,292
6/30/14	4,080	1,764	5,292
6/30/15	7,080	1,764	5,292
6/30/16	7,080	1,764	5,292
6/30/17	7,080	1,764	5,292
06/30/18-06/30/22	35,400	8,820	26,460
06/30/23-06/30/27	35,400	8,820	26,460
06/30/28-06/30/32	35,400	8,820	26,460
06/30/33-06/30/37	7,670	1,911	26,460
	<u>149,270</u>	<u>37,191</u>	<u>206,829</u>
Interest	(67,436)	(16,220)	(94,721)
Net	<u>\$ 81,834</u>	<u>\$ 20,971</u>	<u>\$ 112,108</u>

NOTE 4 – CASH AND DEPOSITS:

The State of Oklahoma allows municipalities to invest in direct obligations of the United States Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts of savings certificates; or county, municipal or school district direct debt.

Cash and deposits are categorized for level of risk as follows:

- Category 1 – Insured or collateralized with securities held by the Town or by its agent in the Town’s name.
- Category 2 – Collateralized with securities held by the pledging financial institution’s trust department or agent in the Town’s name.
- Category 3 – Uncollateralized

Cash and deposits, categorized by level of risk, at June 30, 2012 are:

	Bank Balance	Category			Carrying Amount
		<u>1</u>	<u>2</u>	<u>3</u>	
Bank accounts	<u>\$ 76,277</u>	<u>\$ 76,277</u>	<u>\$</u>	<u>\$</u>	<u>\$ 61,807</u>

TOWN OF HARDESTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

NOTE 5 – EQUITY CLASSIFICATION:

Equity in government-wide financial statements is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt: Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

Restricted net assets: Consists of net assets 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.

Unrestricted net assets: All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Governmental fund equity is classified as fund balance. Proprietary fund equity is classified the same as in the government-wide statements.

NOTE 6– PENSION PLANS:

The Town's volunteer firemen participate in the Oklahoma State Firefighter's Pension and Retirement System. Vesting occurs after 10 years of service and payments begin at age 50, or after 20 years of service, whichever is later.

NOTE 7 – RISK MANAGEMENT:

The Town is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages this risk through the purchase of commercial insurance policies. Risk management activities are accounted for by fund, and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. There was no claims activity for the year just ended.

TOWN OF HARDESTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

NOTE 8 – ESTIMATES:

The preparation of financial statements in conformity with the modified cash basis of accounting used by the Town requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 9 – EVALUATION OF SUBSEQUENT EVENTS:

The Town has evaluated subsequent events through January 23, 2013, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

TOWN OF HARDESTY, OKLAHOMA  
 SCHEDULE OF FEDERAL AND STATE FINANCIAL AWARDS  
 YEAR ENDED JUNE 30, 2012

<u>Grantor/Program</u>	<u>Contract Amount</u>	<u>Contract Number</u>	<u>CFDA Number</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements or Expenses Recognized</u>
<u>Federal Financial Awards:</u>					
Passed through Oklahoma:					
Department of Commerce:					
Community Development	\$ 240,000	14037CDBG09	14.228	\$ 240,000	\$ 240,000
<u>State Financial Awards:</u>					
Department of Agriculture:					
Fire department	\$ 4,413			\$ 4,413	\$ 4,413
Department of Commerce:					
REAP Grant	\$ 50,000	115-08		\$ 4,995	\$ 4,995
REAP Grant	\$ 50,000	120-09		\$ 39,873	\$ 39,873