

HENNESSEY INDEPENDENT SCHOOL DISTRICT NO. 16
KINGFISHER COUNTY, OKLAHOMA
JUNE 30, 2012

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KINGFISHER COUNTY, OKLAHOMA
JUNE 30, 2012

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HENNESSEY INDEPENDENT SCHOOL DISTRICT NO. I-16, KINGFISHER COUNTY
SCHOOL DISTRICT OFFICIALS
JUNE 30, 2012

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INDEPENDENT AUDITOR'S REPORT

The Honorable Board of Education
Hennessey Independent School District #16
Kingfisher County, Oklahoma

Board Members:

We have audited the accompanying fund type and account group financial statements, including budget and actual, of the **Hennessey Independent School District #16**, Kingfisher County, Oklahoma, which collectively comprise the district's regulatory financial statements as of and for the year ended June 30, 2012, as listed in the table of contents as combined financial statements,. These financial statements are the responsibility of the District'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 the 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 described more fully in Note 1, **Hennessey Independent School District #16** Kingfisher County, Oklahoma, has prepared these financial statements using accounting practices prescribed or permitted by the Oklahoma State Department of Education, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In addition, the District has not maintained the cost of fixed assets purchased in previous years and thus does not know the amount that should be recorded in the General Fixed Asset Account Group. Therefore, the General Fixed Asset Account Group has not been presented. This information is required under the regulatory presentation prescribed by the Oklahoma State Department of Education.

In our opinion, because of the effects of the matters discussed in the third paragraph, the financial statements referred to above do not present fairly in conformity with accounting principles generally accepted in the United States of America, the financial position of **Hennessey Independent School District #16**, Kingfisher County, Oklahoma, as of June 30, 2012, or the changes in its financial position, for the year then ended.

In our opinion, except for the omission of the General Fixed Asset Account Group results in an incomplete presentation as explained in the fourth paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the assets, liabilities, and equity arising from regulatory basis transactions of each fund type and account group of **Hennessey Independent School District, #16**, Kingfisher County, Oklahoma as of June 30, 2012, and the revenues collected, expenditures paid/expenses, and budgetary results, for the year ended on the regulatory basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2012, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The combining fund statements as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the combined financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the *Oklahoma Department of Education* and/or the U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the combined financial statements of **Hennessey Independent School District #16**, Kingfisher County, Oklahoma. The combining fund statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole on the regulatory basis of accounting described in Note 1.

Angel, Johnston & Blessingame, P.C.

Chickasha, Oklahoma
October 26, 2012

COMBINED FINANCIAL STATEMENTS

Hennessey School District No.1-016, Kingfisher County, Oklahoma
Combined Statement of Assets, Liabilities and Equity
Regulatory Basis - All Fund Types and Account Groups
For the Year Ending June 30, 2012

	Governmental Fund Types				Fiduciary Fund Types	Account Group	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Long- Term Debt	June 30, 2012
ASSETS							
Cash and Cash Equivalents	\$ 1,020,495	\$ 213,927	\$ 739,132	\$ 515,484	\$ 157,649	\$ 0	\$ 2,646,686
Investments	950,000	0	50,000	0	0	0	1,000,000
Amounts Available in Debt Service Fund	0	0	0	0	0	789,132	789,132
Amounts to be Provided for Retirement of General Long-Term Debt	0	0	0	0	0	1,445,868	1,445,868
Amounts to be Provided For Capitalized Lease Agreements	0	0	0	0	0	806,326	806,326
<i>Total Assets</i>	<u>\$ 1,970,495</u>	<u>\$ 213,927</u>	<u>\$ 789,132</u>	<u>\$ 515,484</u>	<u>\$ 157,649</u>	<u>\$ 3,041,326</u>	<u>\$ 6,688,012</u>
LIABILITIES AND FUND BALANCE							
Liabilities:							
Warrants Payable	\$ 235,655	\$ 41,674	\$ 0	\$ 505,097	\$ 0	\$ 0	\$ 782,426
Reserve for Encumbrances	0	0	0	0	0	0	0
Due to Activity Groups	0	0	0	0	157,649	0	157,649
General Obligation Bonds Payable	0	0	0	0	0	2,235,000	2,235,000
Capitalized Lease Obligations Payable	0	0	0	0	0	806,326	806,326
<i>Total Liabilities</i>	<u>\$ 235,655</u>	<u>\$ 41,674</u>	<u>\$ 0</u>	<u>\$ 505,097</u>	<u>\$ 157,649</u>	<u>\$ 3,041,326</u>	<u>\$ 3,981,401</u>
Fund Equity:							
Reserved for Debt Service	\$ 0	\$ 0	\$ 789,132	\$ 0	\$ 0	\$ 0	\$ 789,132
Reserved for Capital Projects	0	0	0	10,387	0	0	10,387
Cash Fund Balance	1,734,840	172,253	0	0	0	0	1,907,093
<i>Total Fund Equity</i>	<u>\$ 1,734,840</u>	<u>\$ 172,253</u>	<u>\$ 789,132</u>	<u>\$ 10,387</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,706,612</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 1,970,495</u>	<u>\$ 213,927</u>	<u>\$ 789,132</u>	<u>\$ 515,484</u>	<u>\$ 157,649</u>	<u>\$ 3,041,326</u>	<u>\$ 6,688,012</u>

The notes to the financial statements are an integral part of this statement.

Hennessey School District No.1-016, Kingfisher County, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - All Governmental Fund Types
For the Year Ending June 30, 2012

	Governmental Fund Types				Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	June 30, 2012
Revenue Collected:					
Local Sources	\$ 1,247,838	\$ 287,190	\$ 811,640	\$ 0	\$ 2,346,668
Intermediate Sources	201,704	0	0	0	201,704
State Sources	3,363,678	65,548	64	0	3,429,291
Federal Sources	541,570	302,918	0	0	844,488
Non-Revenue Receipts	34,633	820	0	527	35,979
<i>Total Revenue Collected</i>	<u>\$ 5,389,423</u>	<u>\$ 656,476</u>	<u>\$ 811,704</u>	<u>\$ 527</u>	<u>\$ 6,858,130</u>
Expenditures Paid:					
Instruction	\$ 3,356,013	\$ 30,955	\$ 0	\$ 0	\$ 3,386,968
Support Services	1,898,353	75,414	0	0	1,973,767
Operation of Non-Instructional Services	14,957	468,035	0	0	482,992
Facilities Acquisition and Construction	56,193	125,950	0	278,595	460,738
Other Outlays	34,633	28	0	527	35,188
Other Uses	0	0	0	0	0
Repayments	10,665	0	0	0	10,665
Interest Paid on Warrants and Bank Charges	792	0	0	0	792
Debt Service:					
Principal Retirement	0	0	665,000	0	665,000
Interest and Fiscal Agent Fees	0	0	49,786	0	49,786
<i>Total Expenditures Paid</i>	<u>\$ 5,371,605</u>	<u>\$ 700,383</u>	<u>\$ 714,786</u>	<u>\$ 279,122</u>	<u>\$ 7,065,896</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ 17,818</u>	<u>\$ (43,906)</u>	<u>\$ 96,917</u>	<u>\$ (278,595)</u>	<u>\$ (207,766)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):					
Estopped Warrants	\$ 20	\$ 0	\$ 0	\$ 0	\$ 20
Bond Proceeds	0	0	0	0	0
Transfers In	12,814	250	0	0	13,064
Transfers Out	(660)	(250)	0	0	(910)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 12,174</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,174</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ 29,992</u>	<u>\$ (43,906)</u>	<u>\$ 96,917</u>	<u>\$ (278,595)</u>	<u>\$ (195,592)</u>
<i>Fund Balance - Beginning of Year</i>	<u>1,704,848</u>	<u>216,159</u>	<u>692,215</u>	<u>288,982</u>	<u>2,902,204</u>
<i>Fund Balance - End of Year</i>	<u>\$ 1,734,840</u>	<u>\$ 172,253</u>	<u>\$ 789,132</u>	<u>\$ 10,387</u>	<u>\$ 2,706,612</u>

The notes to the financial statements are an integral part of this statement.

Hennessey School District No.1-016, Kingfisher County, Oklahoma
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Regulatory Basis - Budgeted Governmental Fund Types
For the Year Ending June 30, 2012

	General Fund			Special Revenue Funds			Debt Service Fund		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:									
Local Sources	\$ 1,101,093	\$ 1,101,093	\$ 1,247,838	\$ 253,632	\$ 253,632	\$ 287,190	\$ 774,401	\$ 774,401	\$ 811,704
Intermediate Sources	173,000	173,000	201,704	0	0	0	0	0	0
State Sources	3,246,465	3,246,465	3,363,678	65,000	65,000	65,548	0	0	0
Federal Sources	455,266	455,266	541,570	266,000	266,000	302,918	0	0	0
Non-Revenue Receipts	0	0	34,633	0	0	820	0	0	0
<i>Total Revenue Collected</i>	<u>\$ 4,975,824</u>	<u>\$ 4,975,824</u>	<u>\$ 5,389,423</u>	<u>\$ 584,632</u>	<u>\$ 584,632</u>	<u>\$ 656,476</u>	<u>\$ 774,401</u>	<u>\$ 774,401</u>	<u>\$ 811,704</u>
Expenditures Paid:									
Instruction	\$ 4,056,172	\$ 4,056,172	\$ 3,356,013	\$ 34,895	\$ 34,895	\$ 30,955	\$ 0	\$ 0	\$ 0
Support Services	2,145,000	2,145,000	1,898,353	109,411	109,411	75,414	0	0	0
Operation of Non-Instructional Services	21,500	21,500	14,957	469,184	469,184	468,035	0	0	0
Facilities Acquisition and Construction	400,000	400,000	56,193	181,000	181,000	125,950	0	0	0
Other Outlays	40,000	40,000	34,633	6,050	6,050	28	1,466,615	1,466,615	714,786
Other Uses	0	0	0	0	0	0	0	0	0
Repayments	17,000	17,000	10,665	0	0	0	0	0	0
Interest Paid on Warrants and Bank Charges	0	0	792	0	0	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 6,679,672</u>	<u>\$ 6,679,672</u>	<u>\$ 5,371,605</u>	<u>\$ 800,541</u>	<u>\$ 800,541</u>	<u>\$ 700,383</u>	<u>\$ 1,466,615</u>	<u>\$ 1,466,615</u>	<u>\$ 714,786</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	\$ (1,703,848)	\$ (1,703,848)	\$ 17,818	\$ (215,909)	\$ (215,909)	\$ (43,906)	\$ (692,215)	\$ (692,215)	\$ 96,917
Adjustments to Prior Year Encumbrances	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Financing Sources (Uses):									
Estopped Warrants	\$ 0	\$ 0	\$ 20	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	12,814	0	0	250	0	0	0
Transfers Out	(1,000)	(1,000)	(660)	(250)	(250)	(250)	0	0	0
<i>Total Other Financing Sources (Uses)</i>	<u>\$ (1,000)</u>	<u>\$ (1,000)</u>	<u>\$ 12,174</u>	<u>\$ (250)</u>	<u>\$ (250)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	\$ (1,704,848)	\$ (1,704,848)	\$ 29,992	\$ (216,159)	\$ (216,159)	\$ (43,906)	\$ (692,215)	\$ (692,215)	\$ 96,917
<i>Fund Balance - Beginning of Year</i>	1,704,848	1,704,848	1,704,848	216,159	216,159	216,159	692,215	692,215	692,215
<i>Fund Balance - End of Year</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,734,840</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 172,253</u>	<u>\$ (0)</u>	<u>\$ (0)</u>	<u>\$ 789,132</u>

The notes to the financial statements are an integral part of this statement.

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies

The basic financial statements of the Hennessey Public Schools Independent District No. 16, Kingfisher County, Oklahoma (the "District") have been prepared in conformity with an other comprehensive basis of accounting as prescribed by the Oklahoma State Department of Education. The more significant of the District's accounting policies are described below.

1.A. Reporting Entity

The District is a corporate body for public purposes created under Title 70 of the Oklahoma Statutes and accordingly is a separate entity for operating and financial reporting purposes.

The District is part of the public school system of Oklahoma under the general direction and control of the State Board of Education and is financially dependent on the State of Oklahoma support. The general operating authority for the public school system is the Oklahoma School Code contained in Title 70, Oklahoma Statutes.

The governing body of the District is the Board of Education composed of elected members. The appointed superintendent is the executive officer of the District.

In evaluating how to define the District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the District and /or its citizens, or whether the activity is conducted within the geographic boundaries of the District and is generally available to its patrons. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no potential component units included in the District's reporting entity. The District has various supporting groups. However, the District does not appoint any of the board members or exercise any oversight authority over these groups and the dollar amounts are not material to the District.

1.B. Fund Accounting

The District uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain district functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

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

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies, (continued)

1.B. Fund Accounting, Governmental Fund Types, (continued)

Governmental Fund Types

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

1. General Fund - The General Fund is used to account for all financial transactions except those required to be accounted for in another fund. Major revenues sources include state and local property taxes and state funding under the Foundation and Incentive Aid Program.

Expenditures include all costs associated with the daily operations of the schools except for programs funded for building repairs and maintenance, school construction and debt service on bonds and other long-term debt. The general fund includes federal and state restricted monies that must be expended for specific programs.

2. Special Revenue Funds - The Special Revenue Funds of the District consist of the Building Fund, Child Nutrition Fund, Cooperative Fund, and the Insurance Fund..

Building Fund - The Building Fund consists of monies derived from property taxes levied for the purpose of erecting, remodeling, or repairing buildings and for purchasing furniture and equipment.

Child Nutrition Fund - The Child Nutrition Fund consists of monies collected from meals served to students and employees of the district and is expended on food, supplies and salaries to operate the lunchroom. The district also deposits reimbursements received from the National School Lunch and Breakfast programs into this fund.

Insurance Fund - The Insurance fund consists of monies received from insurance claims from storm damage to school property. The monies are spent to repair damaged school property.

Cooperative Fund - The cooperative fund is used to account for the revenues and expenditures for which the District has entered into a cooperative agreement with other school districts.

3. Debt Service Fund - The debt service fund is the District's Sinking Fund and is used to account for the accumulation of financial resources for the payment of general long-term debt principal, interest and related costs. The primary revenue sources are local property taxes levied specifically for debt service and interest earnings from temporary investments.

4. Capital Projects Fund - The capital projects fund is the District's bond fund and is used to account for the proceeds of bond sales to be used exclusively for acquiring school sites, constructing and equipping new school facilities and renovating existing facilities.

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies, (continued)

1.B. Fund Accounting, (continued)

Fiduciary Fund Types

Fiduciary Funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the District. When these assets are held under the terms of a formal trust agreement, trust funds are used for their accounting and reporting. Agency funds generally are used to account for assets that the District holds on behalf of others as their agent and do not involve measurement of results of operations.

1. Agency Funds - The Agency Fund is the School Activities fund, which is used to account for monies, collected principally through fundraising efforts of the students and District-sponsored groups. The administration is responsible, under the authority of the Board, of collecting, disbursing and accounting for these activity funds.

Account Groups

Account groups are not funds and consist of a self-balancing set of accounts used only to establish accounting control over long-term debt and general fixed assets not accounted for in proprietary funds.

1. General long-term Debt Account Group - This account group is used to account for all long-term debt of the District, which is offset by the amount available in the debt service fund and the amount to be provided in future years to complete retirement of the debt principal. It is also used to account for liabilities for compensated absences and early retirement incentives, which are to be paid from funds provided in future years.

2. General Fixed Asset Account Group - This account group is used to account for property, plant and equipment of the District. The District does not have the information necessary to include this group in its combined financial statements.

Memorandum Only - Total Column

The total column on the general purpose financial statements is captioned "memorandum only" to indicate that it is presented only to facilitate financial analysis. Data in this column does not present financial position, results of operations or cash flows in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

1.C. Basis of Accounting and Presentation

The District prepares its financial statements in a presentation format that is prescribed by the Oklahoma State Department of Education. This format is essentially the generally accepted form of presentation used by state and local governments prior to the effective date of GASB 34, *Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments*. This format significantly differs from that required by GASB 34.

The basic financial statements are essentially prepared on a basis of cash receipts and disbursements modified as required by the regulations of the Oklahoma State Department of Education (OSDE) as follows:

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies, (continued)

1.C. Basis of Accounting and Presentation, (continued)

- Encumbrances represented by purchase orders, contracts, and other commitments for the expenditure of monies and are recorded as expenditures when approved.
- Investments and inventories are recorded as assets when purchased.
- Capital assets in proprietary funds are recorded when acquired and depreciated over their useful lives.
- Warrants payable are recorded as liabilities when issued.
- Long-term debt is recorded when incurred.
- Accrued compensated absences are recorded as an expenditure and liability when the obligation is incurred.

This regulatory basis of accounting differs from accounting principles generally accepted in the United States of America, which require revenues to be recognized when they become available and measurable, or when they are earned, and expenditures or expenses to be recognized when the related liabilities are incurred for governmental fund types; and, when revenues are earned and liabilities are incurred for proprietary fund types and trust funds.

1.D. Budgets and Budgetary Accounting

The District is required by state law to prepare an annual budget. The board of education requests an initial temporary appropriations budget from the county excise board before June 30. Then no later than October 1, the board of education prepares financial statement and estimate of needs and files it with the applicable county clerk and the State Department of Education. The final budget may be revised upon approval of the board of education and the county excise board.

Under current Oklahoma Statutes, a formal budget is required for all funds except for trust and agency funds. Budgets are presented for all funds that include the originally approved budgeted appropriations for expenditures and final budgeted appropriations as adjusted for supplemental appropriations and approved transfers between budget categories.

1.E. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents – For purposes of the statement of cash flows, the District considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

Investments - Investments consist of direct obligations of the United States government and agencies with maturities greater than three months when purchased. All investments are records at cost, which approximated market value.

Property Tax Revenues – The District is authorized by state law to levy property taxes, which consist of ad valorem taxes on real and personal property within the District. The County Assessor, upon receipt of the certification of tax levies from the county excise board, extends the tax levies on the tax roll for submission to the county treasurer prior to October 1. The county treasurer must commence tax collection within fifteen days of receipt of the tax rolls. The first half of taxes are due prior to January 1. The second half is due prior to April 1.

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies, (continued)

1.E. Assets, Liabilities and Fund Equity, (continued)

If the first payment is not made timely, the entire tax becomes due and payable on January 2. Second half taxes become delinquent on April 1 of the year following the year of assessment. If not paid by the following October 1, the property is offered for sale for the amount of taxes due. The owner has two years to redeem the property by paying the taxes and penalty owed. If at the end of two years the owner has not done so, the purchaser is issued a deed to the property.

Inventories – The value of consumable inventories at June 30, 2012, is not material to the basic financial statements.

Fixed Assets and Property, Plant and Equipment - The General Fixed Asset Account Group has not been presented.

Compensated Absences - Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. There are no amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources. Vested or accumulated vacation leave of proprietary funds is recorded as an expense and liability of those funds as the benefits accrue to employees.

No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. The District does not pay for unused sick leave upon retirement and, therefore, no amount has been reported in the general long-term debt account group.

Long-Term Debt – Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the general long-term debt account group. Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

Fund Balance – Fund balance represents the cash and investments not encumbered by purchase order, legal contracts, and outstanding warrants.

1.F. Revenue, Expenses, and Expenditures

State Sources - Revenues from state sources for current operations are primarily governed by the state aid formula under provisions of Article XVIII, Title 70, Oklahoma Statutes. The State Board of Education administers the allocation of the state aid funds to school districts based on information accumulated from the districts.

After review and verification of reports and supporting documentation, the State Department of Education may adjust subsequent fiscal period allocations of money for prior year errors disclosed by review. Normally, such adjustments are treated as reductions or additions of revenue of the year when the adjustment is made.

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 1 - Summary of Significant Accounting Policies, (continued)

1.F. Revenue, Expenses, and Expenditures, (continued)

The District receives revenue from the state to administer certain categorical education programs. The State Board of Education rules require that revenue earmarked for these programs be expended only for the program for which the money is provided. These rules also require that the money not expended as of the close of the fiscal year be carried forward into the following year to be expended for the same categorical programs. The State Department of Education requires that categorical educational program revenues be accounted for in the general fund.

Interfund Transactions - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers in/transfers out may not agree because activity fund transactions are not included.

Note 2 – Deposit and Investment Risk

The District held the following deposits and investments at June 30, 2012:

		<u>Carrying Value</u>
Deposits		
Demand Deposits	\$	2,658,150
Time Deposits		<u>1,000,000</u>
Total Deposits	\$	<u><u>3,658,150</u></u>
Investments		
	<u>Credit Rating</u>	<u>Maturity</u>
		<u>Fair Value</u>
		\$ 0
Total Investments		<u><u>0</u></u>
Reconciliation to the Combined Statement of Assets, Liabilities and Equity		
Cash and Cash Equivalents	\$	3,646,686
Activity Fund Outstanding Checks		<u>11,464</u>
Total Deposits and Investments	\$	<u><u>3,658,150</u></u>

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the District holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District’s name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the District holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the District’s name.

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 2 – Deposit and Investment Risk, (continued)

The District's policy as it relates to custodial credit risk is to secure its uninsured deposits with collateral, valued at no more than market value, at least at a level of 100 percent of the uninsured deposits and accrued interest thereon. The investment policy and state law also limits acceptable collateral to U.S. Treasury and agency securities and direct debt obligations of the state, municipalities, counties, and school districts in the state of Oklahoma, surety bonds, and letters of credit. As required by Federal 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the District must have a written collateral agreement approved by the board of directors or loan committee.

At June 30, 2012, the District was not exposed to custodial credit risk as defined above.

Investment Credit Risk – The District has no investment policy that limits its investment choices other than the limitations of state law that generally authorize investment in:

1. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
2. Certificates of deposit of banks when such certificates of deposits are secured by acceptable collateral for the deposit of public monies..
3. Savings accounts or saving certificates to the extent that such accounts or certificates are fully insured by the United States Government.
4. Repurchase agreements that have underlying collateral including obligations of the United States government, its agencies and instrumentalities, or the State of Oklahoma.
5. County, municipal or school district debt obligations for which an ad valorem tax may be levied.
6. Money market funds regulated by the SEC and in which investments consist of the investments consist of obligations of the United States, its agencies and instrumentalities.
7. Warrants, bonds or judgments of the school district.
8. Qualified pooled investment programs through an interlocal cooperative agreement formed pursuant to applicable law and to which the board of education has voted to be a member, the investments of which consist of those items specified in paragraphs 1 through 7 above, as well as obligations of the United States agencies and instrumentalities.
9. Any other investment that is authorized by law.

Investment credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The District has no formal policy limiting investments based on credit rating, but discloses any such credit risk associated with their investment by reporting the credit quality ratings of investment in debt securities as determined by nationally recognized statistical rating organizations-rating agencies-as of the year end. Unless there is information to the contrary, obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not require disclosure of credit quality.

The district had no investment credit risk as of June 30, 2012, as defined above.

Investment Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District 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. The District discloses its exposure to interest rate risk by disclosing the maturity dates of its various investments. The District had no investment interest rate risk as defined above.

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 2 – Deposit and Investment Risk, (continued)

Concentration of Investment Credit Risk – Exposure to concentration of credit risk is considered to exist when investments in any one issuer represent a significant percent of total investments of the District (any over 5 percent are disclosed). Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this consideration. The District places no limit on the amount it may invest in any one issuer.

At June 30, 2012, the District had no concentration of credit risk as defined above.

Note 3 - General Long-term Debt

State statutes prohibit the District from becoming indebted in an amount exceeding the revenue to be received for any fiscal year without approval by the District's voters. Bond issues have been approved by the voters and issued by the District for various capital improvements and transportation purposes. These bonds are required to be fully paid serially within 25 years from the date of issue.

General long-term debt of the District consists of bonds payable, and capital leases. Debt service requirements for bonds are payable solely from the fund balance and future revenues of the debt service fund.

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

	Bonds Payable	Capital Lease Obligations	Compensated Absences	Total
Balance July 1, 2011	2,900,000	821,011		3,721,011
Additions	0	115,299		115,299
Retirements	665,000	129,984		794,984
Balance, June 30, 2012	2,235,000	806,326	-	3,041,326

A brief description of the outstanding general obligation bond issues at June 30, 2012, is set forth below:

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
2009 Building Bonds	1.50%-2.65%	12-01-14	\$ 2,900,000	\$ 2,235,000
Totals			\$ 2,900,000	\$ 2,235,000

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 3 - General Long-term Debt (continued)

Presented below is a summary of debt service requirements to maturity by years and by each bond issue:

	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
2009 Building Bonds					
2012-13	745,000	\$	35,388	\$	780,388
2013-14	745,000		23,095		768,095
2013-14	<u>745,000</u>		<u>8,195</u>		<u>753,195</u>
Sub Total	\$ 2,235,000	\$	66,678	\$	2,301,678
Total Bonds	\$ 2,235,000	\$	66,678	\$	2,301,678

The District has entered into lease agreements as lessee for financing the acquisition of energy equipment, an ag pickup, QZAB bonds and a bus. These lease agreements qualify as capital leases for accounting purposes since title transfers at the end of the lease terms and they have been recorded at the present value of the future minimum lease payments. These leases contain a clause which gives the District the ability to terminate the lease agreements at the end of each fiscal year.

As noted in Note 1 to the financial statements, the District does not record fixed assets in the financial statements. Consistent with this, the District has not recorded the above assets as assets in the General Fixed Assets Account Group. The District has recorded the liability for future lease payments in the general long-term debt account group for the above lease. The schedule of future minimum lease payments under the capital leases and the present value of the net minimum lease payments at June 30, is as follows:

Year Ending	QZAB	Ag	Energy		Total
June 30		Pickup	Equipment	Bus	
2013	\$ 87,754	\$ 5,021	\$ 22,880	\$ 38,433	154,088
2014	88,179	5,020	22,880	38,433	154,512
2015	87,354	0	22,880	0	110,234
2016	87,278	0	22,880	0	110,158
2017	86,917	0	22,880	0	109,797
2018	87,234	0	22,880	0	110,114
2019	87,192	0	22,881	0	110,073
2020	86,795	0	22,881	0	109,676
2021	<u>87,003</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>87,003</u>
Total	<u>785,706</u>	<u>10,041</u>	<u>\$ 183,042</u>	<u>\$ 76,866</u>	<u>\$ 1,055,655</u>
Less: Amount Representing Interest Present Value of Future Minimum	(205,706)	(580)	(38,608)	(4,435)	(249,329)
Lease Payments	<u>580,000</u>	<u>9,461</u>	<u>\$ 144,434</u>	<u>72,431</u>	<u>\$ 806,326</u>

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 4 - Employee Retirement System

Plan Description - The District participates in the state-administered Oklahoma Teachers' Retirement System (the "System") which is a cost-sharing multiple-employer defined benefit Public Employee Retirement System. Under the System the District, the State of Oklahoma, and the participating employees make contributions. Participation is required for all teachers and other certified employees and is optional for all other regular employees of public educational institutions who work at least 20 hours per week. A participant's date of membership is the date the first contribution is made to the System. The System is administered by a board of trustees which acts as a fiduciary for investing the funds and governing the administration of the System. The district has no responsibility or authority for the operation and administration of the System nor has it any liability, except for the current contribution requirements.

The System issues an independent financial report, financial statements and required supplementary information that can be obtained in writing at the Teachers' Retirement System of Oklahoma, P.O. Box 53524, Oklahoma City, Ok 73152 or by calling (405) 521-2387.

A participant with five years of creditable service may retire with a normal retirement allowance at the age of sixty-two or with reduced benefits as early as age fifty-five. The normal retirement allowance paid monthly for life and then to beneficiaries, if certain options are exercised, equals two percent or the average of the highest three earning years of contributory service multiplied by the number of years of credited service. A participant leaving employment before attaining retirement age, but completing ten years of service, may elect to vest his accumulated contributions and defer receipt of a retirement annuity until a later date. When a participant dies in active service and has completed ten years of credited service, the beneficiary is entitled to a death benefit of \$18,000, and the surviving spouse may, in lieu of the death benefit, elect to receive, subject to the surviving spousal options, the participant's retirement benefits accrued at the time of death. The contribution rates for the Districts, which are not actuarially determined, and its employees are established by statute and applied to the employee's earnings, plus employer-paid fringe benefits. The District is required by statute to contribute 9.50% of applicable compensation for the year ended June 30, 2012. The District is allowed by the Oklahoma Teacher's Retirement System to make the required contributions on behalf of the participating members. The required contribution for participating members is 7%.

The District's contributions to the System for the years ending June 30, 2012, 2011, and 2010 were \$303,316, \$300,016, and \$294,845 respectively.

The compensation for employees covered by the System for the year ended June 30, 2012 was \$3,445,864; the District's total compensation was \$3,192,743. In addition to the District's 9.50% contributions, the District was required to pay into the System 7.00% of compensation arising from federal grants (\$24,766) and 9.50% of compensation arising from post retirement employees (\$). There were \$174,106 contributions made by employees during the year ended June 30, 2012.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual school districts. The nonfunded pension benefit obligation of the System as determined as part of the latest actuarial valuation dated June 30, 2011, is as follows:

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 4 - Employee Retirement System, (continued)

Total pension obligation	\$ 17,560,754,452
Net assets available for benefits, at cost	<u>9,960,576,151</u>
Nonfunded pension benefit obligation	<u>\$ 7,600,178,301</u>

The System's accounting records are maintained on the cash basis of accounting, except for accruals of interest income.

Ten-year historical trend information is presented in the Teacher's Retirement System of Oklahoma Annual Report for the year ended June 30, 2011. This information is useful in assessing the pension plan's accumulation of sufficient assets to pay pension benefits as they come due.

Note 5 - Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Note 6 – Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, employees' health and life and natural disasters. The District manages these various risks of loss through the purchase of commercial insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the District. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

Note 7 - Use of Estimates

The preparation of financial statements in conformity with the cash basis and budget laws of the Oklahoma State Department of Education requires management to make 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. Actual results could differ from those estimates.

Hennessey ISD No. 16, Kingfisher County
Notes To The Financial Statements
For The Year Ended June 30, 2012

Note 8 – Surety bonds

The treasurer is bonded by Western Surety Company bond number 7164339 for the penal sum of \$250,000 for the period September 1, 2011 to September 1, 2012.

The school has an employee blanket position bond with C N A Surety Company bond number 14261040 that cover various positions for various amounts for the period April 1, 2012 through April 1, 2013. The positions covered are as follows:

Encumbrance Clerk	\$25,000
School Board Clerk	25,000
School Board President	25,000
Superintendent	100,000
H.S. Activity Fund Custodian	25,000
Custodian Cafeteria Fund	14,000
Custodian Elementary School Funds	5,000
Custodian of Middle School Funds	5,000
Assistant Treasurer	25,000
Assistant Custodian H.S. Activity Fund	25,000

OTHER SUPPLEMENTAL INFORMATION

Hennessey School District No.1-016, Kingfisher County, Oklahoma
Combining Statement of Assets, Liabilities and Cash Fund Balances
Regulatory Basis - All Special Revenue Funds
For the Year Ending June 30, 2012

<u>ASSETS</u>	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Coop Fund</u>	<u>Total June 30, 2012</u>
Cash and Cash Equivalents	\$ 146,988	\$ 66,789	\$ 150	\$ 213,927
Investments	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Assets</i>	<u><u>\$ 146,988</u></u>	<u><u>\$ 66,789</u></u>	<u><u>\$ 150</u></u>	<u><u>\$ 213,927</u></u>
<u>LIABILITIES AND FUND BALANCE</u>				
Liabilities:				
Warrants Payable	\$ 30,350	\$ 11,174	\$ 150	\$ 41,674
Reserve for Encumbrances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Total Liabilities</i>	<u><u>\$ 30,350</u></u>	<u><u>\$ 11,174</u></u>	<u><u>\$ 150</u></u>	<u><u>\$ 41,674</u></u>
Fund Balance:				
Cash Fund Balance	<u>\$ 116,638</u>	<u>\$ 55,614</u>	<u>\$ (0)</u>	<u>\$ 172,253</u>
<i>Total Fund Balance</i>	<u><u>\$ 116,638</u></u>	<u><u>\$ 55,614</u></u>	<u><u>\$ (0)</u></u>	<u><u>\$ 172,253</u></u>
<i>Total Liabilities and Fund Balance</i>	<u><u>\$ 146,988</u></u>	<u><u>\$ 66,789</u></u>	<u><u>\$ 150</u></u>	<u><u>\$ 213,927</u></u>

Hennessey School District No.1-016, Kingfisher County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Regulatory Basis - Special Revenue Funds
For the Year Ending June 30, 2012

	<u>Building Fund</u>	<u>Child Nutrition Fund</u>	<u>Cooperative Fund</u>	<u>Total June 30, 2012</u>
Revenue Collected:				
Local Sources	\$ 175,910	\$ 111,280	\$ 0	\$ 287,190
Intermediate Sources	0	0	0	0
State Sources	13	36,267	29,268	65,548
Federal Sources	0	302,918	0	302,918
Non-Revenue Receipts	0	28	792	820
<i>Total Revenue Collected</i>	<u>\$ 175,923</u>	<u>\$ 450,493</u>	<u>\$ 30,060</u>	<u>\$ 656,476</u>
Expenditures Paid:				
Instruction	\$ 0	\$ 0	\$ 30,955	\$ 30,955
Support Services	75,414	0	0	75,414
Operation of Non-Instructional Services	0	468,035	0	468,035
Facilities Acquisition and Construction	125,950	0	0	125,950
Other Outlays	0	28	0	28
Other Uses	0	0	0	0
Repayments	0	0	0	0
Interest Paid and Bank Charges	0	0	0	0
<i>Total Expenditures Paid</i>	<u>\$ 201,364</u>	<u>\$ 468,063</u>	<u>\$ 30,955</u>	<u>\$ 700,383</u>
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	<u>\$ (25,441)</u>	<u>\$ (17,570)</u>	<u>\$ (895)</u>	<u>\$ (43,906)</u>
Adjustments to Prior Year Encumbrances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources (Uses):				
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	250	0	250
Transfers Out	0	(250)	0	(250)
<i>Total Other Financing Sources (Uses)</i>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	<u>\$ (25,441)</u>	<u>\$ (17,570)</u>	<u>\$ (895)</u>	<u>\$ (43,906)</u>
<i>Fund Balance - Beginning of Year</i>	<u>142,079</u>	<u>73,184</u>	<u>895</u>	<u>216,159</u>
<i>Fund Balance - End of Year</i>	<u>\$ 116,638</u>	<u>\$ 55,614</u>	<u>\$ (0)</u>	<u>\$ 172,253</u>

Hennessey School District No.1-016, Kingfisher County, Oklahoma
Combining Statement of Revenues Collected, Expenditures Paid and Changes in Fund Balances
Special Revenue Funds - Budget and Actual
For the Year Ending June 30, 2012

	Building Fund			Cooperative Fund			Child Nutrition Fund			Total		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue Collected:												
Local Sources	\$ 154,332	\$ 154,332	\$ 175,910	\$ 3,000	\$ 3,000	\$ 0	\$ 96,300	\$ 96,300	\$ 111,280	\$ 253,632	\$ 253,632	\$ 287,190
Intermediate Sources	0	0	0	0	0	0	0	0	0	0	0	0
State Sources	0	0	13	31,000	31,000	29,268	34,000	34,000	36,267	65,000	65,000	65,548
Federal Sources	0	0	0	0	0	0	266,000	266,000	302,918	266,000	266,000	302,918
Non-Revenue Receipts	0	0	0	0	0	792	0	0	28	0	0	820
Total Revenue Collected	\$ 154,332	\$ 154,332	\$ 175,923	\$ 34,000	\$ 34,000	\$ 30,060	\$ 396,300	\$ 396,300	\$ 450,493	\$ 584,632	\$ 584,632	\$ 656,476
Expenditures Paid:												
Instruction	\$ 0	\$ 0	\$ 0	\$ 34,895	\$ 34,895	\$ 30,955	\$ 0	\$ 0	\$ 0	\$ 34,895	\$ 34,895	\$ 30,955
Support Services	109,411	109,411	75,414	0	0	0	0	0	0	109,411	109,411	75,414
Operation of Non-Instructional Services	0	0	0	0	0	0	469,184	469,184	468,035	469,184	469,184	468,035
Facilities Acquisition and Construction	181,000	181,000	125,950	0	0	0	0	0	0	181,000	181,000	125,950
Other Outlays	6,000	6,000	0	0	0	0	50	50	28	6,050	6,050	28
Other Uses	0	0	0	0	0	0	0	0	0	0	0	0
Repayments	0	0	0	0	0	0	0	0	0	0	0	0
Interest Paid	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditures Paid	\$ 296,411	\$ 296,411	\$ 201,364	\$ 34,895	\$ 34,895	\$ 30,955	\$ 469,234	\$ 469,234	\$ 468,063	\$ 800,541	\$ 800,541	\$ 700,383
<i>Excess of Revenues Collected Over (Under) Expenditures Paid Before Adjustments to Prior Year Encumbrances</i>	\$ (142,079)	\$ (142,079)	\$ (25,441)	\$ (895)	\$ (895)	\$ (895)	\$ (72,934)	\$ (72,934)	\$ (17,570)	\$ (215,909)	\$ (215,909)	\$ (43,906)
Adjustments to Prior Year Encumbrances	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Other Financing Sources (Uses):												
Estopped Warrants	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Transfers In	0	0	0	0	0	0	0	0	250	0	0	250
Transfers Out	0	0	0	0	0	0	(250)	(250)	(250)	(250)	(250)	(250)
Total Other Financing Sources (Uses)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (250)	\$ (250)	\$ 0	\$ (250)	\$ (250)	\$ 0
<i>Excess (Deficiency) of Revenue Collected Over Expenditures Paid and Other Financing Sources (Uses)</i>	\$ (142,079)	\$ (142,079)	\$ (25,441)	\$ (895)	\$ (895)	\$ (895)	\$ (73,184)	\$ (73,184)	\$ (17,570)	\$ (216,159)	\$ (216,159)	\$ (43,906)
Fund Balance - Beginning of Year	142,079	142,079	142,079	895	895	895	73,184	73,184	73,184	216,159	216,159	216,159
Fund Balance - End of Year	\$ 0	\$ 0	\$ 116,638	\$ 0	\$ 0	\$ (0)	\$ (0)	\$ (0)	\$ 55,614	\$ (0)	\$ (0)	\$ 172,253

Hennessey School District No.I-016, Kingfisher County, Oklahoma
Combining Assets, Liabilities and Fund Equity
Activity Fund - Regulatory Basis
For the Year Ending June 30, 2012

<u>ASSETS</u>	School Activity Fund
Cash	\$ 157,649
Investments	<u>0</u>
<i>Total Assets</i>	<u>\$ 157,649</u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities:	
Due To Activity Groups	\$ <u>157,649</u>
<i>Total Liabilities</i>	<u>\$ 157,649</u>
Fund Equity:	
Unreserved/Undesignated	\$ <u>0</u>
<i>Total Liabilities and Fund Equity</i>	<u>\$ 157,649</u>

Hennessey School District No.1-016, Kingfisher County, Oklahoma
Combining Statement of Changes in Assets and Liabilities
Regulatory Basis - Activity Fund
For the Year Ending June 30, 2012

ACTIVITIES	Balance July 1, 2011	Additions	Deletions	Balance June 30, 2012
H.S. Administration	\$ 400	\$ 3,137	\$ 3,266	\$ 271
Annual	6,976	13,087	13,664	6,399
Athletics	31,708	71,156	76,087	26,777
Band	6,625	37,024	42,643	1,006
Cheerleaders	5,149	7,907	8,909	4,147
Chorus	1,571	38,211	32,927	6,854
Softball	1,065	1,528	890	1,703
Concessions	0	0	0	0
Elementary Administration	1,681	6,570	6,744	1,507
F.C.A.	27	0	0	27
FFA	12,691	28,238	27,256	13,673
FCCLA	859	3,152	3,376	635
Class of 2012	3,858	0	3,530	327
Class of 2015	2	480	0	482
Miscellaneous	505	1,153	605	1,053
Class of 2013	5,677	10,511	13,465	2,723
Jr. High Cheerleaders	1,426	1,377	2,111	692
After Prom Event	8,538	6,262	6,361	8,440
Industrial Arts	371	0	371	0
Library	4,465	16,346	17,734	3,077
Middle School Administration	814	6,401	5,373	1,842
Counselors	414	1,474	1,057	830
Petty Cash	0	600	600	0
Elementary Flowers, Gifts	0	0	0	0
Scholarship	845	500	500	845
Student Council	298	5,181	4,659	820
MMDA Interest	1,727	0	847	880
Football	585	55,568	52,170	3,983
Girls Basketball	2,717	7,115	6,981	2,851
Middle School Student Council	455	8,404	6,828	2,031
Audio Visual	20	0	0	20
National Honor Society	153	170	229	93
After School Tutoring Program	44,154	0	11,850	32,304
Volleyball	510	1,178	1,526	162
Drama Club	39	20	59	0
Baseball	11,070	20,137	24,150	7,057
Boys Basketball	3,591	2,431	3,275	2,747
Track	4	6,733	6,128	609
Cross Country	223	780	760	244
Athletic Travel	7,215	3,400	797	9,818
Pre Kindegarten	1,197	1,295	2,096	396
Kindergarten	471	2,178	2,444	204
First Grade	855	380	310	925
Class of 2014	412	15,937	8,558	7,791
Vocal Music Trips	245	395	0	640
Multicultural Club	100	0	0	100
4 H Club	132	0	0	132
High School Band Trip	205	0	0	205
Art	1,581	12,547	13,802	326
				0
Total Activities	\$ 173,626	\$ 398,962	\$ 414,939	\$ 157,649

HENNESSEY INDEPENDENT SCHOOL DISTRICT NO. I-016, KINGFISHER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA#</u>	<u>Pass-Through Grantor's Project Number</u>	<u>Deferred Revenue (Accounts Receivable) July 1, 2011</u>	<u>Federal Grant Receipts</u>	<u>Federal Grant Expenditures</u>	<u>Deferred Revenue (Accounts Receivable) June 30, 2012</u>
U.S. Department of Education						
Direct Programs:						
Indian Education Title VII	84.060A	561	0	8,600	8,600	0
Passed Through Oklahoma State Department of Education:						
Title I, Basic	84.010	511	0	226,108	226,108	0
ARRA Title I, Basic	84.389	516	(11,439)	11,439	0	0
Title I Cluster			(11,439)	237,547	226,108	0
IDEA-B Flowthrough	84.027	621	0	161,033	161,033	0
ARRA IDEA B, Flow Through	84.391A	622	(7,418)	7,418	0	0
IDEA-B Preschool	84.173	641	0	3,652	3,652	0
Special Education Cluster			(7,418)	172,103	164,685	0
Title II, Part A,	84.367	541	(4,391)	45,046	40,655	0
Title II, Part D	84.318	546,548	(184)	184	0	0
Title III, Part A, Limited English Proficiency	84.365	572	(737)	16,002	15,265	0
Title VI, Part B, Rural, Low Income	84.358	587	0	16,097	16,097	0
Education Jobs Fund	84.410	790	(12,952)	12,952	0	0
Total U.S. Department of Education			(37,121)	508,531	471,410	0
U.S. Department of Health & Human Services						
Passed through Oklahoma Health Care Authority:						
Medicaid Resources	93.778	698	0	19,741	19,741	0
Total U.S. Department of Health & Human Services			0	19,741	19,741	0
U.S. Department of Human Services						
Passed through Oklahoma Department of Human Services						
OJT Rehabilitative Services	84.126	456	(2,726)	13,300	11,564	(990)
Total U.S. Department of Human Services			(2,726)	13,300	11,564	(990)
U.S. Department of Agriculture						
Passed Through State Department of Education:						
Breakfast Program	10.553	764	0	92,129	92,129	0
Lunch Program	10.555	763	0	210,789	210,789	0
Commodities Distributed-Lunch (Note 2)	10.555	N/A	0	20,609	20,609	0
Child Nutrition Cluster			0	323,527	323,527	0
Total U.S. Department of Agriculture			0	323,527	323,527	0
TOTAL FEDERAL ASSISTANCE			(39,847)	865,099	826,242	(990)

Note 1 - The Schedule of Federal Awards expended was prepared using the same accounting policies used in preparing the District's Financial Statements. The District's policy is to recognize expenditures when encumbered (contracted for) rather than at the time the related fund liability is incurred.

Note 2- Commodities received in the amount of \$20,609 were of a nonmonetary nature and therefore the total revenue does not agree with the financial statements by this amount.

The following transactions related to the American Recovery and Reinvestment Act:

	CFDA #	Program #	Federal Grant Receipts	Federal Grant Expenditures	Deferred ARRA Revenue (Accounts Rec)
ARRA Title I	84.389	516	11,439	0	0
ARRA Special Education	84.391A	622	7,418	0	0
			18,857	0	0



CERTIFIED PUBLIC ACCOUNTANTS

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

The Honorable Board of Education
Hennessey Independent School District #16
Kingfisher County, Oklahoma

Board Members:

We have audited the fund type and account group financial statements, including budget and actual, of **Hennessey Independent School District #16**, Kingfisher County, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the District's regulatory financial statements, as listed in the table of contents as combined financial statements, and have issued our report thereon dated October 26, 2012. The report on these financial statements was adverse because the District has elected to prepare its financial statements in conformity with the accounting and financial reporting regulations prescribed or permitted by the Oklahoma State Department of Education, which is a material departure from accounting principles generally accepted in the United States of America. Our opinion regarding the presentation of the financial statements referred to above in conformity with the prescribed basis of accounting was qualified due to a departure related to the general fixed assets. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of **Hennessey Independent School District #16**, Kingfisher County, Oklahoma, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

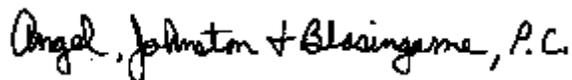
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting. (Finding 2012-1,) 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.

Compliance and Other Matters

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

The District's responses to the findings identified in our audit are described on the attached Corrective Action Plan. We did not audit the District's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the board of education of **Hennessey Independent School District #16**, Oklahoma State Department of Education, and certain federal regulatory agencies and is not intended to be and should not be used by anyone other than these specified parties.



Chickasha, Oklahoma
October 26, 2012



ANGEL,
JOHNSTON &
BLASINGAME, P.C.

P.O. BOX 706 • 2700 SOUTH FOURTH
CHICKASHA, OKLAHOMA 73023
PHONE (405) 224-6363 • FAX (405) 224-6364
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CERTIFIED PUBLIC ACCOUNTANTS

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Board of Education
Hennessey Independent School District #I-16
Kingfisher County, Oklahoma

Board Members:

Compliance

We have audited **Hennessey Independent School District #I-16**, Kingfisher County, Oklahoma's, compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, **Hennessey Independent School District #I-16**, Kingfisher County, Oklahoma complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

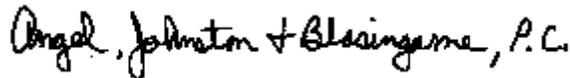
Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the board of education of **Hennessey Independent School District #I-16**, management, others within the District, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Chickasha, Oklahoma
October 26, 2012

**Hennessey ISD No. 16, Kingfisher County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012**

Section 1

Financial Statements

- | | |
|---|---|
| 1. Type of auditor's report issued | Adverse
(Due to F/S being prepared on
a regulatory basis of accounting) |
| 2. Internal control over financial reporting; | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be
material weaknesses? | Yes |
| c. Noncompliance material to the financial statements noted? | No |

Federal Awards

- | | |
|--|--------------------------------|
| 1. Internal control over major program: | |
| a. Material weaknesses identified? | No |
| b. Significant deficiencies identified not considered to be
material weaknesses? | None Reported |
| 2. Type of auditor's report issued on compliance for major program: | Unqualified |
| 3. Any audit findings disclosed that are required to be reported in
accordance with Circular OMB A-133, Section 510(a)? | None |
| 4. Identification of major programs: | |
| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
| 10.555/10.553 | Child Nutrition Fund Cluster |
| 84.027, 84.391A, 84.173 | Special Education Cluster |
| 5. Dollar threshold used to distinguish between Type A or Type B
programs: | \$300,000 |
| 6. Auditee qualified as a low-risk auditee under OMB Circular A-133,
Section 530? | No |

Hennessey ISD No. 16, Kingfisher County
Schedule of Findings and Questioned Costs
Year Ended June 30, 2012
(continued)

Section 2

Financial Statement Findings

Finding 2012-1

Statement of Condition - A dual count is not being prepared for local lunch collections.

Criteria - Two individuals should count the local lunch cash collections at the end of each day and reconcile the collections to the cash collections printout from the computer.

Cause/Effect of Condition - The Child Nutrition Fund personnel were not aware of this procedure. The possibility exists for cash to be misappropriated if this procedure is not performed.

Recommendation - Two individuals should count the cash and reconcile it back to the computer print outs. Both individuals should sign the cash reconciliations indicating they counted the cash.

Section 3

Federal Awards Findings & Questioned Costs

(None Reported)

Hennessey ISD No. 16, Kingfisher County
Summary Schedule of Prior Year Audit Findings
Year Ended June 30, 2012

Finding 2011-1

Statement of Condition – 6 of 30 activity fund purchase orders tested were dated after the invoice date. 4 of 30 purchase orders did not list an approved expense or amount.

Criteria – All goods/services purchased should have a purchase order attached verifying the amount requested was checked against the sub-account's available funds prior to the goods/services being ordered.

Cause/Effect- Lack of implementation of proper purchasing procedures causing noncompliance with school policy.

Recommendation – We recommend all goods/services be approved with a requisition or purchase order with dollar amounts being approved prior to the goods/services being ordered.

Current Status – This was improved for the 2011-12 year.

Finding 2011-2

Statement of Condition – The art sponsor did not issue receipts to students as monies were received for the art candy bar fundraiser. Deposits were noted on 9/10/10, but no receipts were written until 9/30/10. It appears the sponsor collected and deposited the money but didn't issue the receipts until a later date.

Criteria – Good internal control requires receipts to be issued to students when money is collected by the sponsor.

Cause/Effect of Condition – Lack of implementation of proper fundraising collection procedures makes it impossible to determine if all money was deposited and deposited timely.

Recommendation – We recommend all sponsors issue receipts at the time the money is received.

Current Status – This was not noted during the 2011-12 year.

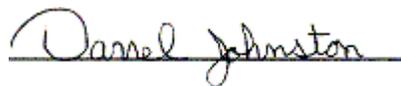
OTHER INFORMATION

Hennessey ISD No. 16, Kingfisher County
Schedule of Accountant's Professional Liability Insurance Affidavit
For Year Ending June 30, 2012

STATE OF OKLAHOMA)
)ss
COUNTY OF GRADY)

The undersigned auditing firm of lawful age, being first duly sworn on oath says that said firm had in full force and effect Accountant's Professional Liability Insurance in accordance with the "Oklahoma Public School Audit Law" at the time of audit contract and during the entire audit engagement with *Hennessey Independent School District* for the audit year 2011-12.

ANGEL, JOHNSTON, & BLASINGAME, P.C.



by _____

Subscribed and sworn to before me this _____ day of _____, 2012.

Notary Public

My Commission Expires 11-12-2016

SCHOOL'S CORRECTIVE ACTION PLAN

Administration Office
604 East Oklahoma
405/853-4321

Hennessey High School
707 East Oklahoma
405/853-4394

Hennessey Public Schools

HENNESSEY, OKLAHOMA 73742

Hennessey Middle School
120 North Mitchell Road
405/853-4303

Hennessey Elementary School
130 North Mitchell Road
405/853-4305

HENNESSEY PUBLIC SCHOOL DISTRICT

KINGFISHER COUNTY

AUDIT FINDINGS CORRECTIVE ACTION PLAN

AUDIT YEAR 2012

AUDIT FINDING REFERENCE NUMBER: 2012-1

DESCRIPTION OF FINDING: A dual count is not being prepared for
local lunch collections.

CONTACT PERSON: Rita Huntsberger

STEPS IMPLEMENTED: We have assigned a second person to be sure
two individuals are now counting the cash, reconciling it back to
the computer printouts, and signing the cash reconciliation.

COMPLETION DATE: Started 10-11-12