Town of

Hennessey, Oklahoma

ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

THE TOWN OF HENNESSEY, OKLAHOMA

ANNUAL FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2011

THIS PAGE INTENTIONALLY LEFT BLANK

TABLE OF CONTENTS

Page

Independent Auditor's Report on Financial Statements 5-6

Management's Discussion and Analysis 7-14

The Basic Financial Statements:

Government-Wide Financial Statements:
Statement of Net Assets (Modified Cash Basis) 16
Statement of Activities (Modified Cash Basis) 17

Governmental Funds Financial Statements:
Balance Sheet (Modified Cash Basis) 19
Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) 20
Reconciliation of Governmental Fund and Government-Wide Financial Statements 21

Proprietary Funds Financial Statements:
Statement of Net Assets (Modified Cash Basis) 23
Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) 24
Statement of Cash Flows (Modified Cash Basis) 25

Footnotes to the Basic Financial Statements 26-39

Required Supplementary Information:

Budgetary Comparison Information

Budgetary Comparison Schedule (Modified Cash Basis)– General Fund 41
Budgetary Comparison Schedule (Modified Cash Basis) – Restricted Sales Tax Fund 42
Footnotes to Budgetary Comparison Schedules 42

Supplementary Information:

Combining Non-Major Governmental Fund Schedules

Combining Balance Sheet (Modified Cash Basis) 44
Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) 44

Combining General Fund Account Schedules

Combining Balance Sheet (Modified Cash Basis) 45
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) 45

TABLE OF CONTENTS

Page

Combining Enterprise Fund Account Schedules

Combining Statement of Net Assets (Modified Cash Basis)..... 46
Combining Statement of Revenues, Expenses and Changes in Net Assets
(Modified Cash Basis) 47

Federal and State Awards Information

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis)..... 48

Debt Service Coverage Information

Schedule of Debt Service Coverage Requirement 49

Internal Control and Compliance over Financial Reporting

Independent Auditor's Report on Internal Control and Compliance..... 50-52

a² Arledge & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

The Honorable Mayor and Members of the Town Board of Trustees
Town of Hennessey, 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 Hennessey, Oklahoma, (the "Town") as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 prepares it financial statements on the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2012 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in

accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's financial statements as a whole. The financial information presented as supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal and state awards, and the schedule of debt service coverage 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 financial statements as a whole.

Arledge & Associates, P.C.

Edmond, Oklahoma
January 10, 2012

The management of the Town of Hennessey is pleased to provide this annual financial report to its citizens, taxpayers and other report users to demonstrate its accountability and communicate the Town's financial condition and activities as of and for the year ended June 30, 2011. Management of the Town is responsible for the fair presentation of this annual report, for maintaining appropriate internal controls over financial reporting, and for complying with applicable laws, regulations, and provisions of grants and contracts. The Town reports its financial statements and schedules on a modified cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. All of the financial analyses in this report must be considered within the context of the limitations of the modified cash basis of accounting.

FINANCIAL HIGHLIGHTS

- As reported on a modified cash basis, the Town's total net assets increased by $475,778, and the assets of the Town exceed its liabilities at June 30, 2011, by $4,270,555 (net assets). Of this amount, $748,669 (unrestricted net assets) is available to meet the government's ongoing needs.

- At June 30, 2011, the Town's governmental funds reported combined ending fund balances on a modified cash basis of $811,124.

- At the end of fiscal year 2011, unassigned fund balance on a modified cash basis for the General Fund was $203,873 or 23.6% of General Fund revenues.

ABOUT THE TOWN

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

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

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

The Town's Financial Reporting Entity

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

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

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The government-wide financial statements present the complete financial picture of the Town from the economic resources measurement focus using the modified cash basis of accounting. They present governmental activities separately and combined. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. These statements include all assets of the Town (including infrastructure) as well as all liabilities (including long-term debt) that result from cash transactions.

Reporting the Town as a Whole

The Statement of Net Assets and Statement of Activities

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

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

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

Fund Financial Statements

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

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

Proprietary funds - When the Town, through the Utilities Authority, charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported on the modified cash basis of accounting and an economic resources measurement focus. For example, proprietary fund capital assets are capitalized and depreciated and principal payments on long-term debt are recorded as a reduction to the liability. The Town's proprietary fund is the Hennessey Utilities Authority that accounts for the operation of the water, sewer, and sanitation activities.

Notes to the Financial Statements

The notes provide additional information that is essential to gain an understanding of the data provided in the government-wide and fund financial statements. The Notes to the Financial Statements can be found on pages 26-39 of this report.

Other Information

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

THE TOWN AS A WHOLE

For the year ended June 30, 2011, net assets on a modified cash basis for the governmental and business-type activities increased $475,778.

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

The Town of Hennessey's Net Assets (Modified Cash Basis)
June 30, 2011

TABLE 1
NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Current assets	$ 811	$ 651	25%	$ 620	$ 522	19%	$ 1,431	$ 1,173	22%
Capital assets, net	1,955	1,905	3%	1,941	1,850	5%	3,896	3,755	4%
Total assets	2,766	2,556	8%	2,561	2,372	8%	5,327	4,928	8%
Current liabilities	-	-	-	128	126	1%	128	126	1%
Non-current liabilities	-	-	-	929	1,007	-8%	929	1,007	-8%
Total liabilities	-	-	-	1,057	1,133	-7%	1,057	1,133	-7%
Net assets									
Invested in capital assets, net of related debt	1,955	1,905	3%	934	766	22%	2,889	2,671	8%
Restricted	573	429	33%	60	57	6%	633	486	30%
Unrestricted	238	221	8%	510	417	22%	749	638	17%
Total net assets	$ 2,766	$ 2,556	8%	$ 1,505	$ 1,239	21%	$ 4,271	$ 3,795	13%

The largest portion of the Town's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This year the investment in capital assets, net of related debt, amounted to $2,888,838.

Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Town's net assets, $633,048, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, $748,669, may be used to meet the government's ongoing needs.

The Town of Hennessey's Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) Year Ended June 30, 2011

TABLE 2
CHANGES IN NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2011	2010		2011	2010		2011	2010	
Revenues									
Charges for services	$ 168	$ 137	23%	$ 1,078	$ 960	12%	$ 1,246	$ 1,097	14%
Operating grants and contributions	33	36	-8%	1	-	-	34	36	-6%
Capital grants and contributions	155	40	100%	-	81	-100%	155	121	-
Taxes	959	849	13%	-	-	-	959	849	13%
Intergovernmental revenue	34	32	6%	-	-	-	34	32	6%
Investment income	4	6	-33%	3	6	-50%	7	12	-42%
Miscellaneous	83	32	159%	2	10	-80%	85	42	102%
Total revenues	1,436	1,132	27%	1,084	1,057	3%	2,520	2,189	15%
Expenses									
General government	192	203	-5%	-	-	-	192	203	-5%
Public safety	671	642	5%	-	-	-	671	642	5%
Streets	162	159	2%	-	-	-	162	159	2%
Culture and recreation	187	201	-7%	-	-	-	187	201	-7%
Cemetery	14	32	-56%	-	-	-	14	32	-56%
Water	-	-	-	459	454	1%	459	454	1%
Wastewater	-	-	-	87	82	6%	87	82	6%
Sanitation	-	-	-	272	271	0%	272	271	0%
Total expenses	1,226	1,237	-1%	818	807	1%	2,044	2,044	0%
Excess (deficiency) before transfers	210	(105)	-300%	266	250	6%	476	145	228%
Transfers	-	100	-100%	-	(100)	-100%	-	-	
Change in net assets	210	(5)	-4300%	266	150	1700%	476	145	228%
Beginning net assets	2,556	2,561	0%	1,239	1,089	14%	3,795	3,650	4%
Ending net assets	$ 2,766	$ 2,556	8%	$ 1,505	$ 1,239	21%	$ 4,271	$ 3,795	13%

Governmental Activities

The Town's governmental activities had an increase in net assets of $210,266. The increase is mostly due to grants received during fiscal year 2011. There were three grants from Oklahoma Department of Commerce for $150,000 and various others totaling $19,202.

TABLE 3
Net Revenue (Expense) of Governmental Activities
(In Thousands)

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2011	2010		2011	2010	
General government	$ 192	$ 203	-5%	($189)	($199)	-5%
Public safety	671	642	5%	(367)	(526)	-30%
Streets	162	159	2%	(143)	(140)	2%
Culture, parks and recreation	187	201	-7%	(161)	(135)	19%
Cemetery	14	32	-56%	(11)	(24)	-54%
Total	$ 1,226	$ 1,237	-1%	($871)	($1,024)	-15%

Business-type Activities

The business-type activities had an increase in net assets of $265,512. The increase is mostly due to a utility rate increase during fiscal year 2011.

TABLE 4
Net Revenue (Expense) of Business-Type Activities
(In Thousands)

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2011	2010		2011	2010	
Water	$ 459	$ 454	1%	$ 127	$ 160	-21%
Wastewater	87	82	6%	151	109	39%
Sanitation	272	271	0%	(19)	(35)	46%
Total	$ 818	$ 807	1%	$ 259	$ 234	11%

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2011 fiscal year, the governmental funds reported a combined fund balance of $811,124. For the year ended June 30, 2011, the General Fund's total fund balance increased by $47,973.

Budgetary Highlights

For the year ended June 30, 2011, the General Fund reported actual modified cash basis revenues over final estimates by $27,150 or a 3.2% positive variance. General Fund actual expenditures were under final appropriations by $12,917 or a 1.6% positive variance.

The Restricted Sales Tax Fund reported actual modified cash basis revenues over final estimates by $59,590 or an 12.6% positive variance for the year ended June 30, 2011. Restricted Sales Tax Fund actual expenditures were under final appropriations by $42,767 or a 9.2% positive variance.

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2011, the Town had approximately $3.9 million invested in capital assets (net of accumulated depreciation), as reported on a modified cash basis, including land, buildings, machinery and equipment, and park facilities. Below are details regarding the Town's capital assets for the year ended June 30, 2011.[1]

The Town of Hennessey's Capital Assets

TABLE 5
Capital Assets
(In Thousands)
(Net of accumulated depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2011	2010	2011	2010	2011	2010
Land	$ 89	$ 89	$ 67	$ 25	$ 156	$ 114
Buildings	875	917	1,110	1,146	1,985	2,063
Imp. other than buildings	15	6	-	-	15	6
Machinery, furniture and equipment	434	349	113	151	547	500
Infrastructure	542	544	-	-	542	544
Utility property	-	-	333	372	333	372
Water rights	-	-	118	29	118	29
Construction in progress	-	-	200	127	200	127
Totals	$ 1,955	$ 1,905	$ 1,941	$ 1,850	$ 3,896	$ 3,755

This year's more significant capital asset additions include the following:

- Fire truck $150,000
- Water rights $88,692
- Land for lagoons $42,190

Debt Administration

At year-end, the City had $1,007,290 in long-term debt outstanding, reported on a modified cash basis, which represents a $76,938 decrease from the prior year.

[1] For more detailed information on capital asset activity please refer to pages 33-34, Note 3. Capital Assets and Depreciation

The Town of Hennessey's Long-term Debt

TABLE 6
Long-Term Debt
(In Thousands)

	Business-Type Activities		Total Percentage Change
	2011	2010	
Notes payable	1,007	1,084	7.1%
Totals	$ 1,007	$ 1,084	7.1%

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

- The FY 2012 budget is consistent to prior years.
- The City is currently under a consent order handed down from the Department of Environmental Quality; the new sewer project just started at the end of FY 2011 and we anticipate the removal of the consent order. The total estimated cost is approximately $1.8 million.

Contacting the Town's Financial Management

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

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

Statement of Net Assets (Modified Cash Basis)– June 30, 2011

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	$ 811,124	$ 619,845	$ 1,430,969
Capital assets:			
Land and construction in progress	88,960	384,895	473,855
Other capital assets, net of depreciation	1,865,896	1,556,377	3,422,273
Total assets	2,765,980	2,561,117	5,327,097
LIABILITIES			
Due to depositors	-	49,252	49,252
Long-term liabilities			
Due within one year	-	78,514	78,514
Due in more than one year	-	928,776	928,776
Total liabilities	-	1,056,542	1,056,542
NET ASSETS			
Invested in capital assets, net of related debt	1,954,856	933,982	2,888,838
Restricted by:			
Enabling legislation	386,947	-	386,947
Statutory requirements	151,323	-	151,323
External:			
Other contracts	34,614	60,164	94,778
Unrestricted	238,240	510,429	748,669
Total net assets	$ 2,765,980	$ 1,504,575	$ 4,270,555

See accompanying notes to the basic financial statements.

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Program Revenue: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities	Net (Expense) Revenue and Changes in Net Assets: Business-type Activities	Net (Expense) Revenue and Changes in Net Assets: Total
Primary government							
Governmental Activities							
General Government	$ 192,250	$ 3,605	$ -	$ -	$ (188,645)	$ -	$ (188,645)
Public Safety	670,575	143,861	5,140	154,950	(366,624)	-	(366,624)
Streets	161,766	-	18,474	-	(143,292)	-	(143,292)
Culture and Recreation	187,162	16,768	9,112	-	(161,282)	-	(161,282)
Cemetery	14,320	3,400	-	-	(10,920)	-	(10,920)
Total governmental activities	1,226,073	167,634	32,726	154,950	(870,763)	-	(870,763)
Business-Type Activities:							
Water	458,848	585,225	850	-	-	127,227	127,227
Wastewater	87,215	238,689	-	-	-	151,474	151,474
Sanitation	272,345	253,521	-	-	-	(18,824)	(18,824)
Total business-type activities	818,408	1,077,435	850	-	-	259,877	259,877
Total primary government	$ 2,044,481	$ 1,245,069	$ 33,576	$ 154,950	(870,763)	259,877	(610,886)
General revenues:							
Taxes:							
Sales and use taxes					$ 879,673	$ -	$ 879,673
Franchise taxes and public service taxes					79,634	-	79,634
Intergovernmental revenue not restricted to specific programs					33,660	-	33,660
Unrestricted investment earnings					4,534	3,247	7,781
Miscellaneous					83,528	2,388	85,916
Total general revenues and transfers					1,081,029	5,635	1,086,664
Change in net assets					210,266	265,512	475,778
Net assets - beginning					2,555,714	1,239,063	3,794,777
Net assets - ending					$ 2,765,980	$ 1,504,575	$ 4,270,555

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2011

	General Fund	Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 215,470	$ 404,640	$ 191,014	$ 811,124
Total assets	$ 215,470	$ 404,640	$ 191,014	$ 811,124
LIABILITIES AND FUND BALANCES				
Liabilities:				
Other payables	$ -	$ -	$ -	$ -
Total liabilities	-	-	-	-
Fund balances:				
Restricted	-	386,947	191,014	577,961
Assigned	11,597	17,693	-	29,290
Unassigned	203,873	-	-	203,873
Total fund balances	215,470	404,640	191,014	811,124
Total liabilities and fund balances	$ 215,470	$ 404,640	$ 191,014	$ 811,124

See accompanying notes to the basic financial statements.

Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance (Modified Cash Basis) – Year Ended June 30, 2011

	General Fund	Restricted Sales Tax Fund	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes	$ 582,304	$ 377,003	$ -	$ 959,307
Intergovernmental	38,800	154,950	27,586	221,336
Licenses and permits	3,605	-	-	3,605
Charges for services	20,931	-	425	21,356
Fees and fines	142,623	-	50	142,673
Investment earnings	1,051	2,287	1,196	4,534
Miscellaneous	76,340	-	7,355	83,695
Total revenues	865,654	534,240	36,612	1,436,506
EXPENDITURES				
Current:				
General government	167,812	-	-	167,812
Public safety	393,079	203,611	-	596,690
Highways and streets	106,126	7,500	19,855	133,481
Culture and recreation	138,552	-	14,703	153,255
Airport	11,916	-	-	11,916
Capital outlay	-	212,742	-	212,742
Total expenditures	817,485	423,853	34,558	1,275,896
Excess (deficiency) of revenues over expenditures	48,169	110,387	2,054	160,610
Net change in fund balances	48,169	110,387	2,054	160,610
Fund balances - beginning	167,301	294,253	188,960	650,514
Fund balances - ending	$ 215,470	$ 404,640	$ 191,014	$ 811,124

See accompanying notes to the basic financial statements.

Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	$	811,124
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.		1,954,856
Net Assets of Governmental Activities in the Statement of Net Assets	$	2,765,980

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	$	160,610
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period.		
Capital asset purchases capitalized		210,066
Loss on sale of capital assets		(167)
Depreciation expense		(160,243)
Change in net assets of governmental activities	$	210,266

See accompanying notes to the basic financial statements.

BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2011

	Hennessey Utilities Authority
ASSETS	
Current assets:	
Cash and cash equivalents	$ 510,429
Restricted:	
Cash and cash equivalents	109,416
Total current assets	619,845
Non-current assets:	
Capital assets:	
Land and construction in progress	384,895
Other capital assets,net of accumulated depreciation	1,556,377
Total non-current assets	1,941,272
Total assets	2,561,117
LIABILITIES	
Current liabilities:	
Deposits subject to refund	49,252
Notes payable	78,514
Total current liabilities	127,766
Non-current liabilities:	
Notes payable	928,776
Total non-current liabilities	928,776
Total liabilities	1,056,542
NET ASSETS	
Invested in capital assets, net of related debt	933,982
Restricted for debt service	60,164
Unrestricted	510,429
Total net assets	$ 1,504,575

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011

	Hennessey Utilities Authority
REVENUES	
Water	$ 574,803
Sewer	232,519
Sanitation	247,462
Penalties	17,411
Reconnect fees	5,245
Miscellaneous	2,383
Total operating revenues	1,079,823
OPERATING EXPENSES	
General government	58,108
Water	302,368
Wastewater	68,815
Sanitation	251,535
Depreciation	105,920
Total operating expenses	786,746
Operating income	293,077
NON-OPERATING REVENUES (EXPENSES)	
Investment income	3,247
Interest expense	(31,662)
Operating grants and contributions	850
Total non-operating revenue (expenses)	(27,565)
Income before transfers	265,512
Transfers in	97,500
Transfers out	(97,500)
Change in net assets	265,512
Total net assets - beginning	1,239,063
Total net assets - ending	$ 1,504,575

See accompanying notes to the basic financial statements.

Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2011

	Hennessey Utilities Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	$ 1,080,673
Payments to suppliers and employees	(680,826)
Receipts of customer meter deposits	5,964
Refunds of customer meter deposits	(5,440)
Net cash provided by operating activities	400,371
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	97,500
Transfers to other funds	(97,500)
Net cash provided by noncapital financing activities	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(204,992)
Principal paid on debt	(76,938)
Proceeds from sale of capital assets	7,539
Interest and fiscal agent fees paid on debt	(31,662)
Net cash provided by (used in) capital and related financing activities	(306,053)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	3,247
Net cash provided by investing activities	3,247
Net increase in cash and cash equivalents	97,565
Balances - beginning of year	522,280
Balances - end of year	$ 619,845
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	$ 510,429
Restricted cash and cash equivalents - current	109,416
Total cash and cash equivalents, end of year	$ 619,845
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	$ 293,077
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	105,920
Operating grant revenue	850
Change in assets and liabilities:	
Deposits subject to refund	524
Net cash provided by operating activities	$ 400,371

See accompanying notes to the basic financial statements.

FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Statement of Net Assets and Activities:

1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

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

- **The Town of Hennessey** – that operates the public safety, cemetery, streets and public works, health and welfare, culture and recreation, and administrative activities

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

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

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

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

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

B. Basis of Presentation and Accounting

Government-Wide Financial Statements:

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

- capital assets and the depreciation of those assets, where applicable
- long-term debt
- cash-based interfund receivables and payables
- other cash-based receivables/payables
- investments
- utility deposit liabilities

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

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

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

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

Governmental Funds:

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

Major Funds:

- General Fund - accounts for all activities not accounted for in other special-purpose funds
- Restricted Sales Tax Fund - accounts for certain sales tax revenue legally restricted for street improvements, capital outlay and ambulance

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

Special Revenue Funds:

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

Capital Project Fund:

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

The governmental funds are reported on a modified cash basis of accounting and current financial resources measurement focus. Only current financial assets and liabilities are generally included on the fund balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. These fund financial statements use fund balance as their measure of available spendable financial resources at the end of the period. The reconciliation of the governmental funds financial statements to the governmental activities presentation in the government-wide financial statements is the result of the use of the economic resources measurement focus at the government-wide level.

Proprietary Fund:

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

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

For purposes of the statement of revenues, expenses and changes in fund net assets, operating revenues and expenses are considered those whose cash flows are related to operating activities, while revenues and expenses related to financing, capital and investing activities are reported as non-operating or transfers and contributions.

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

C. Cash, Cash Equivalents, and Investments

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

D. Capital Assets and Depreciation

The accounting treatment of property, plant and equipment (capital assets) depends on whether the assets are used in governmental fund type or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. In the government-wide and proprietary fund financial statements, property, plant and equipment are accounted for as capital assets, net of accumulated depreciation where applicable. In the governmental fund financial statements, capital assets acquired are accounted for as capital outlay expenditures and not reported as capital assets.

Capital assets consist of land, land improvement, construction in progress, buildings and building improvements, machinery and equipment, and infrastructure. A capitalization threshold of $500 is used to report capital assets. Capital assets are valued at historical cost or estimated historical cost if actual is unavailable. Estimated historical cost was used to value the majority of the assets acquired prior to July 1, 1998. Prior to July 1, 2001, governmental funds' infrastructure assets, such as streets, bridges, drainage systems, and traffic signal systems were not capitalized. Infrastructure assets acquired with cash since July 1, 2001 are recorded at cost.

Depreciable capital assets are depreciated on a straight-line basis over their estimated useful lives. The range of estimated useful lives by type of asset is as follows:

- Buildings 40 years
- Machinery, furniture and equipment 3-10 years
- Utility property and improvements 40 years
- Infrastructure 20-50 years

E. Long-Term Debt

Accounting treatment of long-term debt varies depending upon whether source of repayment is from governmental fund types or proprietary fund type resources and whether they are reported in the government-wide or fund financial statements. All long-term debt resulting from cash transactions to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. Long-term debt for governmental funds is not reported as liabilities 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 the proprietary fund is the same in the fund statements as it is in the government-wide statements.

F. Compensated Absences

As a result of the use of the modified cash basis of accounting, liabilities related to accrued compensated absences are not recorded in the financial statements. Expenditures/expenses related to compensated absences are recorded when paid. The amount of accrued compensated absences for accumulated, unpaid compensatory time that would be due employees upon termination is reported as a commitment in Note 10.

G. Fund Balances and Net Assets

Fund Statements:

Governmental fund equity is classified as fund balance. The Town has implemented GASB Statement 54, fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

a. *Nonspendable* – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
b. *Restricted* – consists of fund balance with constraints placed on the use of resources either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) laws through constitutional provisions or enabling legislation.

c. *Committed* – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. The Town's highest level of decision-making authority is made by ordinance.
d. *Assigned* – includes amounts that are constrained by the Town's intent to be used for specific purposes but are neither restricted nor committed. Assignments of fund balance may be made by town board action or management decision when the town board has delegated that authority. Assignment for transfers and interest income for governmental funds are made through budgetary process.
e. *Unassigned* – represents fund balance that has not been assigned to other funds and has not been restricted, committed, or assigned to specific purposes within the General Fund.

It is the Town's policy to first use restricted fund balance prior to the use of the unrestricted fund balance when an expense is incurred for puposes for which both restricted and unrestricted fund balance are available. The Town's policy for the use of unrestricted fund balance amounts require that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net assets are displayed in three components:

a. *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.
b. *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.
c. *Unrestricted net assets* - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

H. Internal and Interfund Balances and Transfers

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

I. Use of Estimates

Certain estimates are made in the preparation of the financial statements, such as estimated lives for capital assets depreciation. Estimates are based on management's best judgments and may vary from actual results.

2. Deposits and Investments

For the year ended June 30, 2011, the Town recognized $7,781 of investment income. Due to the minimal rates of return on allowable investments in the current environment, most of the Town's deposits are in demand and short-term time deposits.

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

Type	Carrying Value
Deposits:	
Petty cash	$ 370
Demand deposits	245,280
Time deposits	1,185,319
	$ 1,430,969
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	$ 1,430,969
	$ 1,430,969

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

As of June 30, 2011, the Town was not exposed to custodial credit risk as defined above.

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

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

As of June 30, 2011, the Town did not hold any securities with credit ratings since they are all non-negotiable time deposits.

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

Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net assets are comprised of amounts restricted for debt service, or meter deposits. The restricted assets as of June 30, 2011 are as follows:

	Cash and cash equivalents
Meter Deposit	$ 49,252
OWRB Debt Service	60,164
Total	$ 109,416

3. Capital Assets and Depreciation

For the year ended June 30, 2011, capital assets balances changed as follows:

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 88,960	$ -	$ -	$ 88,960
Total capital assets not being depreciated	88,960	-	-	88,960
Other capital assets:				
Buildings	1,371,893	-	-	1,371,893
Other improvements	8,934	10,750	-	19,684
Infrastructure	597,927	16,633	-	614,560
Machinery and equipment	1,128,812	182,683	115,000	1,196,495
Total other capital assets at historical cost	3,107,566	210,066	115,000	3,202,632
Total capital assets at historical cost	3,196,526	210,066	115,000	3,291,592
Less accumulated depreciation for:				
Buildings	455,274	41,971	-	497,245
Other improvements	2,681	2,059	-	4,740
Infrastructure	53,605	18,824	-	72,429
Machinery and equipment	779,766	97,389	114,833	762,322
Total accumulated depreciation	1,291,326	160,243	114,833	1,336,736
Capital assets, net of accumulated depreciation:				
Land	88,960	-	-	88,960
Buildings	916,619	(41,971)	-	874,648
Other improvements	6,253	8,691	-	14,944
Infrastructure	544,322	(2,191)	-	542,131
Machinery and equipment	349,046	85,294	167	434,173
Total capital assets, net	$ 1,905,200	$ 49,823	$ 167	$ 1,954,856

	Balance at July 1, 2010	Additions	Disposals	Balance at June 30, 2011
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 25,000	$ 42,190	$ -	$ 67,190
Water rights	29,070	88,692	-	117,762
Construction in progress	127,383	72,560	-	199,943
Total capital assets not being depreciated	181,453	203,442	-	384,895
Other capital assets:				
Buildings	1,433,083	-	-	1,433,083
Machinery and equipment	240,515	1,550	14,740	227,325
Utiltity property and improvements	1,216,797	-	10,690	1,206,107
Total other capital assets at historical cost	2,890,395	1,550	25,430	2,866,515
Total capital assets at historical cost	3,071,848	204,992	25,430	3,251,410
Less accumulated depreciation for:				
Buildings	286,616	35,827	-	322,443
Machinery and equipment	90,420	32,715	8,729	114,406
Utiltity property and improvements	845,073	37,378	9,162	873,289
Total accumulated depreciation	1,222,109	105,920	17,891	1,310,138
Capital assets, net of accumulated depreciation:				
Land	25,000	42,190	-	67,190
Water rights	29,070	88,692	-	117,762
Construction in progress	127,383	72,560	-	199,943
Buildings	1,146,467	(35,827)	-	1,110,640
Machinery and equipment	150,095	(31,165)	6,011	112,919
Utiltity property and improvements	371,724	(37,378)	1,528	332,818
Total capital assets, net	$ 1,849,739	$ 99,072	$ 7,539	$ 1,941,272

Depreciation of capital assets is included in total expenses and is charged or allocated to the activities primarily benefiting from the use of the specific asset. Depreciation expense has been allocated as follows:

Governmental Activities:		Business-Type Activities:	
General government	$ 26,751	Water	$ 92,278
Public safety	68,897	Wastewater	12,008
Highways and streets	35,784	Sanitation	1,634
Cemetery	2,404		$ 105,920
Culture and recreation	26,407		
	$ 160,243		

4. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2011, the reporting entity's long-term debt changed as follows:

Type of Debt	Balance Due July 1, 2010	Additions	Deductions	Balance Due June 30, 2011	Amount Due Within One Year
Business-Type Activities:					
Notes Payable	$1,084,228	$ -	$76,938	$1,007,290	$78,514
Total Business-Type Activities	$1,084,228	$ -	$76,938	$1,007,290	$78,514

Governmental activities had no long-term debt payable from taxes and other general revenues for June 30, 2011.

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

Notes Payable:	
Note payable to Oklahoma Water Resources Board, original amount of $1,417,150, payable in semi-annual installments, including principal and interest at 2.766%, final payment due September 15, 2022.	$890,497
Note payable to Oklahoma Department of Commerce, original amount of $125,000, payable in monthly installments of $521 with a 0% interest rate, final payment due October 2020.	57,293
Note payable to Pioneer Telephone, original amount of $85,000, payable in monthly installments of $708 with a 0% interest rate, final payment due August 2015.	59,500
Total Notes Payable	$ 1,007,290
Current portion	$78,514
Non-current portion	928,776
Total Notes Payable	$1,007,290

Long-term debt service requirements to maturity are as follows:

	Business Type Activities	
Year Ending June 30,	Notes Payable	
	Principal	Interest
2012	$ 79,566	$ 28,841
2013	81,722	26,685
2014	83,950	24,458
2015	86,251	22,156
2016	88,630	19,777
2017-2021	450,981	60,348
2022-2023	136,190	4,510
Totals	$ 1,007,290	$ 186,775

Utility Net Revenues Pledge

The City has pledged future water and sewer net utility revenues to repay the OWRB series note payable of $1,417,150. Proceeds from the note were for financing the reverse osmosis treatment system. The note is payable from pledged water and sewer utility revenues of the HUA and are payable through 2022. The total principal and interest payable for the remainder of the life of this note is $1,077,273. Pledged water and sewer utility net revenues for the current year was $464,425. Debt service payments in the current year totaled $94,371.

5. Sales Tax Revenue

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

6. Property Tax Levy

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

7. Internal and Interfund Balances and Transfers

Balances:

The Town had no internal balances at June 30, 2011.

Transfers:

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

Transfer From	Transfer To	Amount	Purpose of Transfer
HUA	OWRB	$ 97,500	Debt payment
Total		$ 97,500	

Reconciliation to Fund Financial Statements:

	Transfers In	Transfers Out	Net Transfers
Governmental Funds	$ -	$ -	$ -
Proprietary Funds	97,500	(97,500)	-
	$ 97,500	$ (97,500)	-

8. Fund Equity

The Town implemented GASB Statement 54: Fund Balance Reporting and Governmental Fund Type Definitions. The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54.

	General Fund	Restricted Sales Tax Fund	Other Governmental Funds	Total
Fund Balance:				
Restricted for:				
Ambulance Operations Sales Tax	$ -	$ 77,803	$ -	$ 77,803
Street Improvements Sales Tax	-	183,545	-	183,545
Capital Outlay Sales Tax	-	125,599	-	125,599
Street and Alley Purposes	-	-	37,891	37,891
Juvenile Programs	-	-	16,116	16,116
Snyder Trust Fund Purposes	-	-	34,614	34,614
Cemetery Care	-	-	97,316	97,316
Library Operations and Capital	-	-	5,077	5,077
Sub-total Restricted	-	386,947	191,014	577,961
Assigned For:				
Ambulance Operations, Street Improvements, Capital Outlay	-	17,693	-	17,693
CDBG projects	35	-	-	35
Fire Operations and Capital	11,562	-	-	11,562
Sub-total Assigned	11,597	17,693	-	29,290
Unassigned	203,873	-	-	203,873
Total Fund Balance	$ 215,470	$ 404,640	$ 191,014	$ 811,124

Restricted Net Assets – Governmental Activities:

The following table shows the net assets restricted for other purposes as shown in the Statement of Net Assets:

Fund	Restricted By	Amount
Restricted Sales Tax Fund	Enabling Legislation	$ 386,947
Street & Alley Fund	Statutory Requirements	$ 37,891
Juvenile Fund	"	16,116
Cemetery Care Fund	"	97,316
		$ 151,323
Snyder Trust Fund	Trust Fund Requirements	$ 34,614

9. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and life; and natural disasters. The Town manages these various risks of loss by securing commercial insurance for all risks, except for participation in the Oklahoma Municipal Assurance Group risk entity pool for certain coverage. Management believes such insurance coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

10. Commitments and Contingencies

Compensated Absences:

As a result of the Town's use of the modified cash basis of accounting, accrued liabilities related to compensated absences (vacation only; sick leave does not vest) earned but unpaid at year-end are not reflected in the basic financial statements. The compensated absence commitment at June 30, 2011, is summarized as follows:

- General Fund – Vacation leave $10,370
- HUA – Vacation leave $2,017

Litigation:

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

maintained by the Town and the State statute relating to judgments, the Town feels that any settlement or judgment not covered by insurance would not have a material adverse effect on the financial condition of the Town.

Federal and State Award Programs:

The Town of Hennessey participates in various federal or state grant/loan programs from year to year. In 2011, the Town's involvement in federal and state award programs was significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The Town has not been notified of any noncompliance with federal or state award requirements. Any liability or reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

11. Pension Plan Participation

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

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

Firefighter Pension System:

Plan Summary Information. The Town of Hennessey, as the employer, participates in a statewide cost-sharing multiple employer defined benefit pension plan through the Oklahoma Firefighter's Pension and Retirement System (OFPRS). The OFPRS defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Pursuant to the requirements of Title 11, section 22-102, the Town must participate in the plan if they employ full-time or volunteer firefighters.

The OFPRS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to OFPRS, 4545 N. Lincoln Blvd., Suite 265, Oklahoma City, OK 73105-3414.

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

The OFPRS contributions are as follows:

Fiscal Year	Required Contribution	Amount Contributed
2009	$780	$780
2010	$720	$720
2011	$780	$780

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning Budgetary Fund Balance:	$120,000	$120,000	$155,908	$35,908
Resources (Inflows):				
Taxes	512,000	512,000	582,304	70,304
Intergovernmental	35,000	35,000	38,800	3,800
Charges for services	19,200	19,200	20,812	1,612
Fines and Forfeitures	140,000	140,000	142,623	2,623
Licenses and Permits	4,000	4,000	3,605	(395)
Investment Income	2,100	2,100	966	(1,134)
Miscellaneous	26,000	26,000	76,340	50,340
Transfer In	100,000	100,000	-	(100,000)
Total Resources (Inflows)	838,300	838,300	865,450	27,150
Amounts available for appropriation	958,300	958,300	1,021,358	63,058
Charges to Appropriations (Outflows):				
Managerial	5,606	5,616	5,609	7
Administration	74,885	64,285	63,875	410
Town Clerk	5,204	5,204	4,879	325
Town Treasurer	4,403	4,843	4,810	33
Town Attorney	10,400	10,400	10,340	60
Municipal Judge	5,855	5,855	5,820	35
Police	328,718	369,668	362,431	7,237
Fire	32,419	24,019	24,828	(809)
Streets	107,302	111,402	106,126	5,276
Parks	7,300	6,900	6,192	708
Swimming Pool	32,246	35,846	36,720	(874)
General Government	79,800	77,800	78,299	(499)
Library	102,973	96,273	95,640	633
Cemetery	33,292	12,291	11,916	375
Total Charges to Appropriations	830,403	830,402	817,485	12,917
Ending Budgetary Fund Balance	$127,897	$127,898	$203,873	$75,975

Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2011 (Continued)

	RESTRICTED SALES TAX FUND			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final	Amounts	Positive (Negative)
Beginning Budgetary Fund Balance	$285,000	$285,000	$294,253	$9,253
Resources (Inflows):				
Taxes	321,000	321,000	377,003	56,003
Intergovernmental	-	150,000	154,950	4,950
Investment income	3,650	3,650	2,287	(1,363)
Total Resources (Inflows)	324,650	474,650	534,240	59,590
Amounts available for appropriation	609,650	759,650	828,493	68,843
Charges to appropriations (outflows):				
Police	30,000	30,000	651	29,349
Fire	-	164,900	164,810	90
EMS	203,620	206,820	206,731	89
Streets	16,000	64,900	51,661	13,239
Total Charges to Appropriations	249,620	466,620	423,853	42,767
Ending Budgetary Fund Balance	$360,030	$293,030	$404,640	$111,610

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.

2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require Town Board approval.

3. The General fund budgetary comparison does not include the other combined accounts; see the schedule for combining General fund accounts on page 46 for comparison.

SUPPLEMENTARY INFORMATION

NonMajor Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2011

	Special Revenue Funds				Capital Project Fund	
	Street and Alley Fund	Library Fund	Juvenile Fund	Snyder Trust Fund	Cemetery Care Fund	Total Governmental Funds
ASSETS						
Cash and cash equivalents	$ 37,891	$ 5,077	$ 16,116	$ 34,614	$ 97,316	$ 191,014
Total assets	$ 37,891	$ 5,077	$ 16,116	$ 34,614	$ 97,316	$ 191,014
LIABILITIES AND FUND BALANCES						
Liabilities:						
Total liabilities	$ -	$ -	$ -	$ -	$ -	$ -
Fund balances:						
Restricted	37,891	5,077	16,116	34,614	97,316	191,014
Assigned	-	-	-	-	-	-
Total fund balances	37,891	5,077	16,116	34,614	97,316	191,014
Total liabilities and fund balances	$ 37,891	$ 5,077	$ 16,116	$ 34,614	$ 97,316	$ 191,014

NonMajor Governmental Funds Combining Schedule of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2011

	Special Revenue Funds				Capital Project Fund	
	Street and Alley Fund	Library Fund	Juvenile Fund	Snyder Trust Fund	Cemetery Care Fund	Total Governmental Funds
REVENUES						
Fees and fines	$ -	$ -	$ 50	$ -	$ -	$ 50
Intergovernmental	18,474	9,112	-	-	-	27,586
Charges for services	-	-	-	-	425	425
Investment income	266	14	-	239	677	1,196
Miscellaneous	-	7,355	-	-	-	7,355
Total revenues	18,740	16,481	50	239	1,102	36,612
EXPENDITURES						
Current:						
Streets	19,855	-	-	-	-	19,855
Library	-	14,703	-	-	-	14,703
Total Expenditures	19,855	14,703	-	-	-	34,558
Excess (deficiency) of revenues over expenditures	(1,115)	1,778	50	239	1,102	2,054
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	-	-	-	-	-	-
Total other financing sources and uses	-	-	-	-	-	-
Net change in fund balances	(1,115)	1,778	50	239	1,102	2,054
Fund balances - beginning	39,006	3,299	16,066	34,375	96,214	188,960
Fund balances - ending	$ 37,891	$ 5,077	$ 16,116	$ 34,614	$ 97,316	$ 191,014

Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2011

	General Fund	CDBG Grant Fund	Rural Fire Fund	Total General Fund
ASSETS				
Cash and cash equivalents	$ 203,873	$ 35	$ 11,562	$ 215,470
Total assets	$ 203,873	$ 35	$ 11,562	$ 215,470
LIABILITIES AND FUND BALANCES				
Liabilities:				
Total liabilities	$ -	$ -	$ -	$ -
Fund balances:				
Assigned	-	35	11,562	11,597
Unassigned	203,873	-	-	203,873
Total fund balances	203,873	35	11,562	215,470
Total liabilities and fund balances	$ 203,873	$ 35	$ 11,562	$ 215,470

Combining Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2011

	General Fund	CDBG Grant Fund	Rural Fire Fund	Total General Fund Accounts
REVENUES				
Taxes	$ 582,304	$ -	$ -	$ 582,304
Fees and fines	142,623	-	-	142,623
Licenses and permits	3,605	-	-	3,605
Intergovernmental	38,800	-	-	38,800
Charges for services	20,812	-	119	20,931
Investment income	966	8	77	1,051
Miscellaneous	76,340	-	-	76,340
Total revenues	865,450	8	196	865,654
EXPENDITURES				
Current:				
General government	167,812	-	-	167,812
Police	393,079	-	-	393,079
Streets	106,126	-	-	106,126
Library	138,552	-	-	138,552
Airport	11,916	-	-	11,916
Total Expenditures	817,485	-	-	817,485
Excess (deficiency) of revenues over expenditures	47,965	8	196	48,169
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources and uses	-	-	-	-
Net change in fund balances	47,965	8	196	48,169
Fund balances - beginning	155,908	27	11,366	167,301
Fund balances - ending	$ 203,873	$ 35	$ 11,562	$ 215,470

Proprietary Fund Accounts Combining Schedule of Net Assets (Modified Cash Basis) – June 30, 2011

	HUA Operating	OWRB Loan Account	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 510,429	$ -	$ 510,429
Restricted:			
Cash and cash equivalents	49,252	60,164	109,416
Total current assets	559,681	60,164	619,845
Non-current assets:			
Capital Assets:			
Land and construction in progress	384,895	-	384,895
Other capital assets,net of accumulated depreciation	1,556,377	-	1,556,377
Total non-current assets	1,941,272	-	1,941,272
Total assets	2,500,953	60,164	2,561,117
LIABILITIES			
Current liabilities:			
Deposits subject to refund	49,252	-	49,252
Notes payable	14,750	63,764	78,514
Total current liabilities	64,002	63,764	127,766
Non-current liabilities:			
Notes payable	102,043	826,733	928,776
Total non-current liabilities	102,043	826,733	928,776
Total liabilities	166,045	890,497	1,056,542
NET ASSETS			
Invested in capital assets, net of related debt	1,824,479	(890,497)	933,982
Restricted for debt service	-	60,164	60,164
Unrestricted	510,429	-	510,429
Total net assets	$ 2,334,908	$ (830,333)	$ 1,504,575

Proprietary Fund Accounts Combining Schedule of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2011

	HUA Operating Account	OWRB Loan Account	Total
REVENUES			
Charges for services:			
Water	$ 574,803	$ -	$ 574,803
Sewer	232,519	-	232,519
Sanitation	247,462	-	247,462
Penalties	17,411	-	17,411
Reconnect fees	5,245	-	5,245
Miscellaneous	2,383	-	2,383
Total operating revenues	1,079,823	-	1,079,823
OPERATING EXPENSES			
General government	58,108	-	58,108
Water	302,368	-	302,368
Wastewater	68,815	-	68,815
Sanitation	251,535	-	251,535
Depreciation	105,920	-	105,920
Total operating expenses	786,746	-	786,746
Operating income	293,077	-	293,077
NON-OPERATING REVENUES (EXPENSES)			
Investment income	2,872	375	3,247
Operating grants and contributions	850	-	850
Interest expense	-	(31,662)	(31,662)
Total non-operating revenue (expenses)	3,722	(31,287)	(27,565)
Income (loss) before transfers	296,799	(31,287)	265,512
Transfers in	-	97,500	97,500
Transfers out	(97,500)	-	(97,500)
Change in net assets	199,299	66,213	265,512
Total net assets (deficit) - beginning	2,135,609	(896,546)	1,239,063
Total net assets (deficit) - ending	$ 2,334,908	$ (830,333)	$ 1,504,575

Schedule of Expenditures of Federal and State Awards (Modified Cash Basis) – Year Ended June 30, 2011

State Grantor/Pass through agency Grantor/Program Title	Federal CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
FEDERAL AWARDS:				
U. S. DEPARTMENT OF JUSTICE:				
Bulletproof Vest Partnership Program	16.607	N/A	$ 1,827	$ 742
Passed through:				
District Attorney's Council	16.803	JR09-063	4,950	4,950
District Attorney's Council	16.803	JR09-126	4,672	4,672
			9,622	9,622
U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:				
Passed through:				
Oklahoma Department of Commerce	14.228	14157 CDBG	37,624	37,624
Oklahoma Department of Commerce	14.228	14158 CDBG	33,168	33,168
Oklahoma Department of Commerce	14.228	14159 CDBG	79,208	79,208
			150,000	150,000
TOTAL FEDERAL AWARDS			$ 161,449	$ 160,364
STATE AWARDS:				
OKLAHOMA DEPARTMENT OF LIBRARIES:				
State Aid FY 10	N/A	N/A	$ 555	$ 555
State Aid FY 11	N/A	N/A	4,495	4,495
State Aid FY 11	N/A	N/A	499	499
Continuing Education OLA Conference	N/A	N/A	1,851	1,851
Continuing Education OLA Conference	N/A	N/A	55	55
Siga Adelante Expansion	N/A	N/A	1,657	1,657
Total Oklahoma Department of Libraries			9,112	9,112
OKLAHOMA DEPARTMENT OF AGRICULTURE:				
Passed through Eastern Oklahoma Development District				
Rural Fire Grant	N/A	N/A	4,398	4,398
OKLAHOMA WATER RESOURCES BOARD:				
Emergency Grant	N/A	FAP-09-0006-G	85,680	850
TOTAL STATE AWARDS			$ 99,190	$ 14,360

Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2011

		OWRB NOTE
GROSS REVENUE AVAILABLE:		
Charges for services (water and sewer systems)	$	832,361
Investment income		3,247
Total Gross Revenue Available		835,608
OPERATING EXPENDITURES:		
Water		302,368
Sewer		68,815
Total Operating Expenditures		371,183
Net Revenue Available for Debt Service	$	464,425
Maximum Annual Debt Service on all Long-Term Debt Secured by Revenues of the System	$	93,657
Computed Coverage		496%
Coverage Requirement		125%

INTERNAL CONTROL AND COMPLIANCE

a² Arledge & Associates, P.C.
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 Mayor and Members of the Town Board of Trustees
Town of Hennessey, 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 Hennessey, Oklahoma, (the "Town") as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 10, 2012. Our report was a special report on the Town's use of a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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.*

This report is intended solely for the information and use of the Mayor, the Town Board of Trustees, management, and 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.

Arledge & Associates, P.C.

Edmond, Oklahoma
January 10, 2012