



December 28, 2012

Office of the State Auditor and Inspector
Attn: Nancy Grantham
2300 N. Lincoln Blvd., Room 100
Oklahoma City, OK 73105

In accordance with O.S. Title 74 Section 212A.A.2, and O.S. Title 11, Section 17-105.1, please find attached the following for the reporting entity of the Town of Hennessey for the year ended June 30, 2012:

- The audited financial statements, with the accompanying auditor's reports thereon;
- Annual Survey of City and Town Finances (SA&I Form 2643), with the accompanying accountants compilation report thereon; and

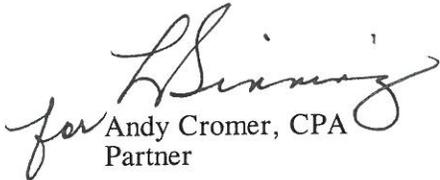
The \$100.00 filing fee has been paid via your website.

The entities included in the Town of Hennessey reporting entity are the following:

- The Town of Hennessey; and
- The Hennessey Utilities Authority (HUA)

Should you need any additional information or have any questions regarding this filing, please contact me at 405-348-0615.

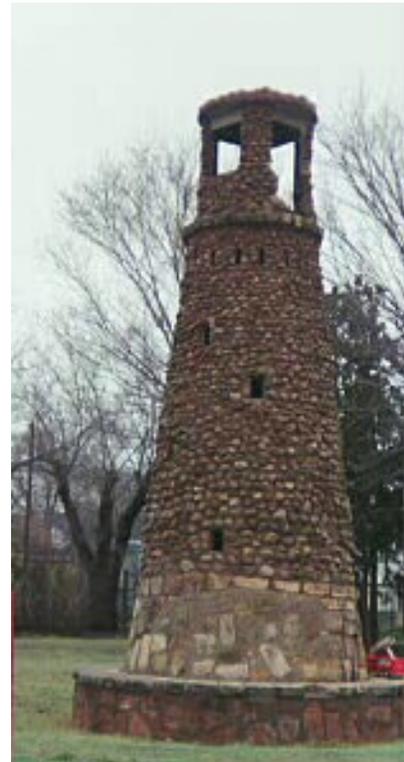
Sincerely,

A handwritten signature in cursive script, appearing to read 'for Andy Cromer', is written over the typed name and title.
for Andy Cromer, CPA
Partner

Attachments

Town of

Hennessey, Oklahoma



ANNUAL FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**THE TOWN OF HENNESSEY,
OKLAHOMA**

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

AS OF AND FOR THE FISCAL YEAR ENDED JUNE 30, 2012

TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

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TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

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Independent Auditor's Report

The Honorable Mayor and Members of the Town Board
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, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town'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 its 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, 2012, and the respective changes in financial position – modified cash basis, and statement of cash flows – modified cash basis, 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 December 4, 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 combining and individual nonmajor fund financial statements, the schedule of expenditures of federal and state awards, and the schedule of debt service coverage are presented for purposes of additional analysis and is not a required part of the financial statements. This information is the responsibility of management and was derived from and relates 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.


Edmond, Oklahoma
December 4, 2012

TOWN OF HENNESSEY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 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, 2012. 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 \$423,200, and the assets of the Town exceed its liabilities at June 30, 2012, by \$4,693,755 (net assets). Of this amount, \$1,113,614 (unrestricted net assets) is available to meet the government's ongoing needs.
- At June 30, 2012, the Town's governmental funds reported combined ending fund balances on a modified cash basis of \$997,413.
- At the end of fiscal year 2012, unassigned fund balance on a modified cash basis for the General Fund was \$261,815 or 30.4% 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.

TOWN OF HENNESSEY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

THE TOWN AS A WHOLE

For the year ended June 30, 2012, net assets on a modified cash basis for the governmental and business-type activities increased \$423,200.

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, 2012

TABLE 1
NET ASSETS (In Thousands)

	<u>Governmental Activities</u>		<u>% Inc. (Dec.)</u>	<u>Business-Type Activities</u>		<u>% Inc. (Dec.)</u>	<u>Total</u>		<u>% Inc. (Dec.)</u>
	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>	
Current assets	\$ 997	\$ 811	23%	\$ 905	\$ 620	46%	\$ 1,903	\$ 1,431	33%
Capital assets, net	1,891	1,955	-3%	1,879	1,941	-3%	3,770	3,896	-3%
Total assets	<u>2,889</u>	<u>2,766</u>	4%	<u>2,784</u>	<u>2,561</u>	9%	<u>5,672</u>	<u>5,327</u>	6%
Current liabilities	-	-	-	133	128	4%	133	128	4%
Non-current liabilities	-	-	-	846	929	-9%	846	929	-9%
Total liabilities	<u>-</u>	<u>-</u>	-	<u>979</u>	<u>1,057</u>	-7%	<u>979</u>	<u>1,057</u>	-7%
Net assets									
Invested in capital assets, net of related debt	1,891	1,955	-3%	951	934	2%	2,842	2,889	-2%
Restricted	673	573	17%	65	60	8%	738	633	17%
Unrestricted	324	238	36%	789	510	55%	1,114	748	49%
Total net assets	<u>\$ 2,889</u>	<u>\$ 2,766</u>	4%	<u>\$ 1,805</u>	<u>\$ 1,505</u>	20%	<u>\$ 4,694</u>	<u>\$ 4,270</u>	10%

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 \$2,842,043.

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, \$738,098, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$1,113,614, may be used to meet the government's ongoing needs.

TOWN OF HENNESSEY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

The Town of Hennessey's Revenues, Expenses and Changes in Net Assets (Modified Cash Basis)
Year Ended June 30, 2012

TABLE 2
CHANGES IN NET ASSETS (In Thousands)

	Governmental Activities		% Inc. (Dec.)	Business-Type Activities		% Inc. (Dec.)	Total		% Inc. (Dec.)
	2012	2011		2012	2011		2012	2011	
Revenues									
Charges for services	\$ 143	\$ 168	-15%	\$ 1,162	\$ 1,078	8%	\$ 1,305	\$ 1,246	5%
Operating grants and contributions	43	33	30%	-	1	-	43	34	26%
Capital grants and contributions	24	155	-85%	-	-	-	24	155	-85%
Taxes	1,040	959	8%	-	-	-	1,040	959	8%
Intergovernmental revenue	36	34	6%	-	-	-	36	34	6%
Investment income	4	4	0%	4	3	33%	8	7	14%
Miscellaneous	43	83	-48%	15	2	650%	58	85	-32%
Total revenues	1,333	1,436	-7%	1,181	1,084	9%	2,514	2,520	0%
Expenses									
General government	196	192	2%	-	-	-	196	192	2%
Public safety	692	671	3%	-	-	-	692	671	3%
Streets	180	162	11%	-	-	-	180	162	11%
Culture and recreation	183	187	-2%	-	-	-	183	187	-2%
Cemetery	9	14	-36%	-	-	-	9	14	-36%
Water	-	-	-	449	459	-2%	449	459	-2%
Wastewater	-	-	-	103	87	18%	103	87	18%
Sanitation	-	-	-	279	272	3%	279	272	3%
Total expenses	1,260	1,226	3%	831	818	2%	2,091	2,044	2%
Excess (deficiency) before transfers	73	210	-65%	350	266	32%	423	476	-11%
Transfers	50	-	100%	(50)	-	-100%	-	-	
Change in net assets	123	210	-41%	300	266	13%	423	476	-11%
Beginning net assets	2,766	2,556	8%	1,505	1,239	21%	4,271	3,795	13%
Ending net assets	\$ 2,889	\$ 2,766	4%	\$ 1,805	\$ 1,505	20%	\$ 4,694	\$ 4,271	10%

Governmental Activities

The Town's governmental activities had a decrease in change in net assets of approximately \$88,000. The decrease is mostly due to grants received during fiscal year 2011 and not renewed in 2012.

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

	Total Expense of Services		% Inc. (Dec.)	Net Revenue (Expense) of Services		% Inc. (Dec.)
	2012	2011		2012	2011	
General government	\$ 196	\$ 192	2%	(\$184)	(\$189)	-3%
Public safety	692	671	3%	(539)	(367)	47%
Streets	179	162	10%	(161)	(143)	13%
Culture, parks and recreation	184	187	-2%	(162)	(161)	1%
Cemetery	9	14	-36%	(5)	(11)	-55%
Total	\$ 1,260	\$ 1,226	3%	(\$1,051)	(\$871)	21%

TOWN OF HENNESSEY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

Business-type Activities

The business-type activities had an increase in net assets of \$300,451. The increase is mostly due to a utility rate increase during fiscal year 2012.

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

	Total Expense of Services		% Inc. Dec.	Net Revenue (Expense) of Services		% Inc. Dec.
	2012	2011		2012	2011	
	Water	\$ 449		\$ 459	-2%	
Wastewater	103	87	18%	177	151	17%
Sanitation	279	272	3%	(14)	(19)	26%
Total	\$ 831	\$ 818	2%	\$ 332	\$ 259	28%

A FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

As the Town completed its 2012 fiscal year, the governmental funds reported a combined fund balance of \$997,413. For the year ended June 30, 2012, the General Fund's total fund balance increased by \$58,090.

Budgetary Highlights

For the year ended June 30, 2012, the General Fund reported actual modified cash basis revenues over final estimates by \$35,635 or a 4.1% positive variance. General Fund actual expenditures were under final appropriations by \$32,005 or a 3.6% positive variance.

The Restricted Sales Tax Fund reported actual modified cash basis revenues over final estimates by \$77,972 or a 21.5% positive variance for the year ended June 30, 2012. Restricted Sales Tax Fund actual expenditures were under final appropriations by \$84,891 or a 21.4% positive variance.

TOWN OF HENNESSEY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

CAPITAL ASSETS & DEBT ADMINISTRATION

Capital Assets

At the end of June 30, 2012, the Town had approximately \$3.8 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, 2012.¹

The Town of Hennessey's Capital Assets

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 89	\$ 89	\$ 67	\$ 67	\$ 156	\$ 156
Buildings	870	875	1,075	1,110	1,945	1,985
Imp. other than buildings	17	15	-	-	17	15
Machinery, furniture and equipment	361	434	101	113	462	547
Infrastructure	522	542	-	-	522	542
Utility property	-	-	318	333	318	333
Water rights	-	-	118	118	118	118
Construction in progress	32	-	200	200	232	200
Totals	\$ 1,891	\$ 1,955	\$ 1,879	\$ 1,941	\$ 3,770	\$ 3,896

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

- Police Department Remodel \$51,999
- Flatbed Truck \$13,049
- PVC pump skid \$12,100

Debt Administration

At year-end, the City had \$927,830 in long-term debt outstanding, reported on a modified cash basis, which represents a \$79,460 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

TOWN OF HENNESSEY, OKLAHOMA
Management's Discussion and Analysis
As of and for the Year Ended June 30, 2012

The Town of Hennessey's Long-term Debt

TABLE 6
Long-Term Debt
(In Thousands)

	Business-Type Activities		Total Percentage Change
	<u>2012</u>	<u>2011</u>	
Notes payable	928	1,007	7.8%
Totals	\$ 928	\$ 1,007	7.8%

ECONOMIC FACTORS AND NEXT YEAR'S ESTIMATES

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

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

Contacting the Town's Financial Management

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

**TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

BASIC FINANCIAL STATEMENTS – STATEMENTS OF NET ASSETS AND ACTIVITIES

TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Statement of Net Assets (Modified Cash Basis)– June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 188,403	\$ 83,763	\$ 272,166
Investments	809,010	821,358	1,630,368
Capital assets:			
Land and construction in progress	120,685	384,895	505,580
Other capital assets, net of depreciation	1,770,631	1,493,662	3,264,293
Total assets	<u>2,888,729</u>	<u>2,783,678</u>	<u>5,672,407</u>
LIABILITIES			
Due to depositors	-	50,822	50,822
Long-term liabilities			
Due within one year	-	81,722	81,722
Due in more than one year	-	846,108	846,108
Total liabilities	<u>-</u>	<u>978,652</u>	<u>978,652</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,891,316	950,727	2,842,043
Restricted for:			
Ambulance	138,102	-	138,102
Street improvements	234,853	-	234,853
Capital outlay	113,852	-	113,852
Street and alley	36,234	-	36,234
Juvenile programs	17,027	-	17,027
Snyder trust	34,783	-	34,783
Cemetery	98,278	-	98,278
Debt Service	-	64,969	64,969
Unrestricted	324,284	789,330	1,113,614
Total net assets	<u>\$ 2,888,729</u>	<u>\$ 1,805,026</u>	<u>\$ 4,693,755</u>

See accompanying notes to the basic financial statements.

TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012

Statement of Activities (Modified Cash Basis)– Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government							
Governmental Activities							
General Government	\$ 196,497	\$ 3,325	\$ -	\$ 9,262	\$ (183,910)	\$ -	\$ (183,910)
Public Safety	691,945	118,975	19,075	15,000	(538,895)	-	(538,895)
Streets	179,524	-	18,734	-	(160,790)	-	(160,790)
Culture and Recreation	183,543	17,136	4,649	-	(161,758)	-	(161,758)
Cemetery	8,879	4,000	-	-	(4,879)	-	(4,879)
Total governmental activities	<u>1,260,388</u>	<u>143,436</u>	<u>42,458</u>	<u>24,262</u>	<u>(1,050,232)</u>	<u>-</u>	<u>(1,050,232)</u>
Business-Type Activities:							
Water	449,371	618,020	-	-	-	168,649	168,649
Wastewater	103,205	279,945	-	-	-	176,740	176,740
Sanitation	278,584	264,902	-	-	-	(13,682)	(13,682)
Total business-type activities	<u>831,160</u>	<u>1,162,867</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>331,707</u>	<u>331,707</u>
Total primary government	<u>\$ 2,091,548</u>	<u>\$ 1,306,303</u>	<u>\$ 42,458</u>	<u>\$ 24,262</u>	<u>(1,050,232)</u>	<u>331,707</u>	<u>(718,525)</u>
General revenues:							
Taxes:							
Sales and use taxes				\$ 960,959	\$ -	\$ 960,959	
Franchise taxes and public service taxes				78,534	-	78,534	
Intergovernmental revenue not restricted to specific programs				36,365	-	36,365	
Unrestricted investment earnings				4,005	3,570	7,575	
Miscellaneous				43,118	15,174	58,292	
Transfers				50,000	(50,000)	-	
Total general revenues and transfers				<u>1,172,981</u>	<u>(31,256)</u>	<u>1,141,725</u>	
Change in net assets				122,749	300,451	423,200	
Net assets - beginning				<u>2,765,980</u>	<u>1,504,575</u>	<u>4,270,555</u>	
Net assets - ending				<u>\$ 2,888,729</u>	<u>\$ 1,805,026</u>	<u>\$ 4,693,755</u>	

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – GOVERNMENTAL FUNDS

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Governmental Funds Balance Sheet (Modified Cash Basis) – June 30, 2012

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 65,671	\$ 116,395	\$ 6,337	\$ 188,403
Investments	207,825	417,553	183,632	809,010
Due from other funds	64	-	-	64
Total assets	<u>\$ 273,560</u>	<u>\$ 533,948</u>	<u>\$ 189,969</u>	<u>\$ 997,477</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64</u>	<u>\$ 64</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>64</u>	<u>64</u>
Fund balances:				
Restricted	-	486,807	186,322	673,129
Assigned	11,745	47,141	3,583	62,469
Unassigned	261,815	-	-	261,815
Total fund balances	<u>273,560</u>	<u>533,948</u>	<u>189,905</u>	<u>997,413</u>
Total liabilities and fund balances	<u>\$ 273,560</u>	<u>\$ 533,948</u>	<u>\$ 189,969</u>	<u>\$ 997,477</u>

See accompanying notes to the basic financial statements.

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Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance
(Modified Cash Basis) – Year Ended June 30, 2012

	<u>General Fund</u>	<u>Restricted Sales Tax Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 627,653	\$ 411,840	\$ -	\$ 1,039,493
Intergovernmental	55,440	15,000	23,383	93,823
Licenses and permits	3,325	-	-	3,325
Charges for services	21,574	-	500	22,074
Fees and fines	117,126	-	911	118,037
Investment earnings	1,091	2,103	811	4,005
Miscellaneous	36,174	11,369	6,944	54,487
Total revenues	<u>862,383</u>	<u>440,312</u>	<u>32,549</u>	<u>1,335,244</u>
EXPENDITURES				
Current:				
General government	169,812	-	-	169,812
Public safety	406,412	203,611	-	610,023
Highways and streets	119,264	-	20,566	139,830
Culture and recreation	142,727	-	13,092	155,819
Airport	8,762	-	-	8,762
Capital outlay	7,316	107,393	-	114,709
Total expenditures	<u>854,293</u>	<u>311,004</u>	<u>33,658</u>	<u>1,198,955</u>
Excess (deficiency) of revenues over expenditures	<u>8,090</u>	<u>129,308</u>	<u>(1,109)</u>	<u>136,289</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	-	-	50,000
Total other financing sources and uses	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Net change in fund balances	58,090	129,308	(1,109)	186,289
Fund balances - beginning	215,470	404,640	191,014	811,124
Fund balances - ending	<u>\$ 273,560</u>	<u>\$ 533,948</u>	<u>\$ 189,905</u>	<u>\$ 997,413</u>

See accompanying notes to the basic financial statements.

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Reconciliation of Governmental Funds and Government-Wide Financial Statements:

Fund Balance – Net Assets Reconciliation:

Total fund balance, governmental funds	\$	997,413
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.		
		1,891,316
Net Assets of Governmental Activities in the Statement of Net Assets	<u>\$</u>	<u>2,888,729</u>

Changes in Fund Balances – Changes in Net Assets Reconciliation:

Net change in fund balances - total governmental funds:	\$	186,289
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		113,089
Book value of disposed capital assets		(2,107)
Depreciation expense		(174,522)
Change in net assets of governmental activities	<u>\$</u>	<u>122,749</u>

See accompanying notes to the basic financial statements.

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BASIC FINANCIAL STATEMENTS – PROPRIETARY FUNDS

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Proprietary Fund Statement of Net Assets (Modified Cash Basis) – June 30, 2012

	<u>Hennessey Utilities Authority</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 32,760
Investments	756,570
Restricted:	
Cash and cash equivalents	51,003
Investments	64,788
Total current assets	905,121
Non-current assets:	
Capital assets:	
Land and construction in progress	384,895
Other capital assets, net of accumulated depreciation	1,493,662
Total non-current assets	1,878,557
Total assets	2,783,678
LIABILITIES	
Current liabilities:	
Deposits subject to refund	50,822
Notes payable	81,722
Total current liabilities	132,544
Non-current liabilities:	
Notes payable	846,108
Total non-current liabilities	846,108
Total liabilities	978,652
NET ASSETS	
Invested in capital assets, net of related debt	950,727
Restricted for debt service	64,969
Unrestricted	789,330
Total net assets	\$ 1,805,026

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Revenues, Expenses and Changes in Net Assets (Modified Cash Basis) – Year Ended June 30, 2012

	<u>Hennessey Utilities Authority</u>
REVENUES	
Water	\$ 605,240
Sewer	273,147
Sanitation	258,871
Penalties	20,605
Reconnect fees	5,015
Miscellaneous	15,163
Total operating revenues	<u>1,178,041</u>
OPERATING EXPENSES	
General government	63,258
Water	327,836
Wastewater	68,685
Sanitation	241,146
Depreciation	101,980
Total operating expenses	<u>802,905</u>
Operating income	<u>375,136</u>
NON-OPERATING REVENUES (EXPENSES)	
Investment income	3,570
Interest expense	(28,255)
Total non-operating revenue (expenses)	<u>(24,685)</u>
Income before transfers	350,451
Transfers out	(50,000)
Change in net assets	<u>300,451</u>
Total net assets - beginning	1,504,575
Total net assets - ending	<u>\$ 1,805,026</u>

See accompanying notes to the basic financial statements.

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Proprietary Fund Statement of Cash Flows (Modified Cash Basis) – Year Ended June 30, 2012

	Hennessey Utilities Authority
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,178,041
Payments to suppliers and employees	(700,925)
Receipts of customer meter deposits	6,658
Refunds of customer meter deposits	(5,088)
Net cash provided by operating activities	<u>478,686</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers to other funds	(50,000)
Net cash provided by noncapital financing activities	<u>(50,000)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchases of capital assets	(39,265)
Principal paid on debt	(79,460)
Interest and fiscal agent fees paid on debt	(28,255)
Net cash provided by (used in) capital and related financing activities	<u>(146,980)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(821,358)
Interest and dividends	3,570
Net cash provided by investing activities	<u>(817,788)</u>
Net increase in cash and cash equivalents	(536,082)
Balances - beginning of year	<u>619,845</u>
Balances - end of year	<u>\$ 83,763</u>
Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 32,760
Restricted cash and cash equivalents - current	51,003
Total cash and cash equivalents, end of year	<u>\$ 83,763</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:	
Operating income	\$ 375,136
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	101,980
Change in assets and liabilities:	
Deposits subject to refund	1,570
Net cash provided by operating activities	<u>\$ 478,686</u>

See accompanying notes to the basic financial statements.

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FOOTNOTES TO THE BASIC FINANCIAL STATEMENTS

Footnotes to the Statement of Net 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:

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- 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. For financial reporting purposes it includes the CDBG grant fund and the rural fire fund.
- Restricted Sales Tax Fund - accounts for certain sales tax revenue legally restricted for street improvements, capital outlay and ambulance

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

Special Revenue Funds:

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

Capital Project Fund:

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

C. Cash, Cash Equivalents, and Investments

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

D. 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.

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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. 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.

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- 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.

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2. Deposits and Investments

For the year ended June 30, 2012, the Town recognized \$7,575 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, 2012, the primary government held the following deposits and investments:

Type	Carrying Value
Deposits:	
Petty cash	\$ 370
Demand deposits	271,796
Time deposits	1,630,368
	\$ 1,902,534
 Reconciliation to Statement of Net Assets:	
Cash and cash equivalents	\$ 272,166
Investments	1,630,368
	\$ 1,902,534

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, 2012, 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, 2012, the Town did not hold any securities with credit ratings since they are all non-negotiable time deposits.

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

Restricted Cash and Investments – The amounts reported as restricted assets on the statement of net assets are comprised of amounts restricted for debt service, or meter deposits. The restricted assets as of June 30, 2012 are as follows:

	Cash and cash equivalents
Meter Deposit	\$ 50,822
OWRB Debt Service	64,969
Total	\$ 115,791

3. Capital Assets and Depreciation

For the year ended June 30, 2012, capital assets balances changed as follows:

	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	\$ 88,960	\$ -	\$ -	\$ 88,960
Construction in progress	-	31,725	-	31,725
Total capital assets not being depreciated	88,960	31,725	-	120,685
Other capital assets:				
Buildings	1,371,893	41,345	-	1,413,238
Other improvements	19,684	6,808	-	26,492
Infrastructure	614,560	-	-	614,560
Machinery and equipment	1,196,495	33,211	21,071	1,208,635
Total other capital assets at historical cost	3,202,632	81,364	21,071	3,262,925
Total capital assets at historical cost	3,291,592	113,089	21,071	3,383,610
Less accumulated depreciation for:				
Buildings	497,245	46,105	-	543,350
Other improvements	4,740	3,778	-	8,518
Infrastructure	72,429	20,204	-	92,633
Machinery and equipment	762,322	104,435	18,964	847,793
Total accumulated depreciation	1,336,736	174,522	18,964	1,492,294
Capital assets, net of accumulated depreciation:				
Land	88,960	-	-	88,960
Construction in progress	-	31,725	-	31,725
Buildings	874,648	(4,760)	-	869,888
Other improvements	14,944	3,030	-	17,974
Infrastructure	542,131	(20,204)	-	521,927
Machinery and equipment	434,173	(71,224)	2,107	369,056
Total capital assets, net	\$ 1,954,856	\$ (61,433)	\$ 2,107	\$ 1,891,316

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	Balance at July 1, 2011	Additions	Disposals	Balance at June 30, 2012
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 67,190	\$ -	\$ -	\$ 67,190
Water rights	117,762	-	-	117,762
Construction in progress	199,943	-	-	199,943
Total capital assets not being depreciated	<u>384,895</u>	<u>-</u>	<u>-</u>	<u>384,895</u>
Other capital assets:				
Buildings	1,433,083	-	-	1,433,083
Machinery and equipment	227,325	23,358	-	250,683
Utility property and improvements	1,206,107	15,907	-	1,222,014
Total other capital assets at historical cost	<u>2,866,515</u>	<u>39,265</u>	<u>-</u>	<u>2,905,780</u>
Total capital assets at historical cost	<u>3,251,410</u>	<u>39,265</u>	<u>-</u>	<u>3,290,675</u>
Less accumulated depreciation for:				
Buildings	322,443	35,827	-	358,270
Machinery and equipment	114,406	35,359	-	149,765
Utility property and improvements	873,289	30,794	-	904,083
Total accumulated depreciation	<u>1,310,138</u>	<u>101,980</u>	<u>-</u>	<u>1,412,118</u>
Capital assets, net of accumulated depreciation:				
Land	67,190	-	-	67,190
Water rights	117,762	-	-	117,762
Construction in progress	199,943	-	-	199,943
Buildings	1,110,640	(35,827)	-	1,074,813
Machinery and equipment	112,919	(12,001)	-	100,918
Utility property and improvements	332,818	(14,887)	-	317,931
Total capital assets, net	<u>\$ 1,941,272</u>	<u>\$ (62,715)</u>	<u>\$ -</u>	<u>\$ 1,878,557</u>

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	\$ 26,685	Water	\$ 86,421
Public safety	81,923	Wastewater	14,574
Highways and streets	39,692	Sanitation	985
Cemetery	117		<u>\$ 101,980</u>
Culture and recreation	26,105		
	<u>\$ 174,522</u>		

4. Long-Term Debt and Debt Service Requirements

For the year ended June 30, 2012, the reporting entity's long-term debt changed as follows:

Type of Debt	Balance Due July 1, 2011	Additions	Deductions	Balance Due June 30, 2012	Amount Due Within One Year
<i>Business-Type Activities:</i>					
Notes Payable	\$ 1,007,290	\$ -	\$ 79,460	\$ 927,830	\$ 81,722
Total Business-Type Activities	<u>\$ 1,007,290</u>	<u>\$ -</u>	<u>\$ 79,460</u>	<u>\$ 927,830</u>	<u>\$ 81,722</u>

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Governmental activities had no long-term debt payable from taxes and other general revenues for June 30, 2012.

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.	\$825,787
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.	51,043
Note payable to Pioneer Telephone, original amount of \$85,000, payable in monthly installments of \$708 with a 0% interest rate, final payment due August 2015.	<u>51,000</u>
Total Notes Payable	<u>\$ 927,830</u>
Current portion	\$81,722
Non-current portion	<u>846,108</u>
Total Notes Payable	<u>\$927,830</u>

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

<u>Year Ending June 30,</u>	<u>Business Type Activities</u>	
	Notes Payable	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 81,722	\$ 26,685
2014	83,950	24,458
2015	86,251	22,156
2016	88,630	19,777
2017	91,087	17,320
2018-2022	449,800	46,779
2023	46,390	760
Totals	<u>\$ 927,830</u>	<u>\$ 157,935</u>

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 \$983,722. Pledged water and sewer utility net revenues for the current year were \$526,219. Debt service payments in the current year totaled \$88,645 and were 17% of pledged revenues.

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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:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>	<u>Nature of Balance</u>
Street and Alley Fund	General Fund	\$ 64	To cover negative cash
Total		<u>\$ 64</u>	

Reconciliation to Fund Financial Statements:

	<u>Due From</u>	<u>Due To</u>	<u>Net Internal Balances</u>
Governmental Funds	\$ 64	\$ (64)	\$ -
Total	<u>\$ 64</u>	<u>\$ (64)</u>	<u>\$ -</u>

Transfers:

Internal transfers between funds and activities for the year ended June 30, 2012, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Purpose of Transfer</u>
HUA	General fund	\$ 50,000	Operations
Total		<u>\$ 50,000</u>	

Reconciliation to Fund Financial Statements:

	<u>Transfers In</u>	<u>Transfers Out</u>	<u>Net Transfers</u>
Governmental Funds	\$ 50,000	\$ -	\$ 50,000
Proprietary Funds	-	(50,000)	(50,000)
	<u>\$ 50,000</u>	<u>\$ (50,000)</u>	<u>-</u>

8. Fund Equity

The following tables show the fund balance classifications as shown in the Governmental Funds Balance Sheet in accordance with GASB Statement 54.

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	General Fund	Restricted Sales Tax Fund	Other Governmental Funds	Total
Fund Balance:				
Restricted for:				
Ambulance Operations Sales Tax	\$ -	\$ 138,102	\$ -	\$ 138,102
Street Improvements Sales Tax	-	234,853	-	234,853
Capital Outlay Sales Tax	-	113,852	-	113,852
Street and Alley Purposes	-	-	36,234	36,234
Juvenile Programs	-	-	17,027	17,027
Snyder Trust Fund Purposes	-	-	34,783	34,783
Cemetery Care	-	-	98,278	98,278
Sub-total Restricted	-	486,807	186,322	673,129
Assigned For:				
Ambulance Operations, Street Improvements, Capital Outlay CDBG projects	-	47,141	-	47,141
Library Operations and Capital	35	-	-	35
Fire Operations and Capital	-	-	3,583	3,583
Sub-total Assigned	11,710	-	-	11,710
Unassigned	261,815	-	-	261,815
Total Fund Balance	\$ 273,560	\$ 533,948	\$ 189,905	\$ 997,413

Restricted Net Assets – Governmental Activities:

There are no net assets restricted by enabling legislation.

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, 2012, is summarized as follows:

- General Fund – Vacation leave \$6,763
- HUA – Vacation leave \$2,657

Litigation:

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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 2012, the Town's involvement in federal and state award programs was not significant. The grant/loan programs are often subject to additional audits by agents of the granting or loaning agency, the purpose of which is to ensure compliance with the specific conditions of the grant or loan. The Town has not been notified of any noncompliance with federal or state award requirements. Any liability or reimbursement which may arise as a result of these audits cannot be reasonably determined at this time, although it is believed the amount, if any, would not be material.

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:

Required	Amount
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<u>Fiscal Year</u>	<u>Contribution</u>	<u>Contributed</u>
2010	\$720	\$720
2011	\$780	\$780
2012	\$780	\$780

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SUPPLEMENTARY INFORMATION

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance:	\$140,000	\$140,000	\$203,873	\$63,873
Resources (Inflows):				
Taxes	583,000	583,000	627,653	44,653
Intergovernmental	3,500	3,500	55,440	51,940
Charges for services	13,000	13,000	21,480	8,480
Fines and Forfeitures	140,000	140,000	117,126	(22,874)
Licenses and Permits	3,000	3,000	3,325	325
Investment Income	1,100	1,100	1,037	(63)
Miscellaneous	33,000	33,000	36,174	3,174
Transfer In	100,000	100,000	50,000	(50,000)
Total Resources (Inflows)	<u>876,600</u>	<u>876,600</u>	<u>912,235</u>	<u>35,635</u>
Amounts available for appropriation	<u>1,016,600</u>	<u>1,016,600</u>	<u>1,116,108</u>	<u>99,508</u>
Charges to Appropriations (Outflows):				
Managerial	5,606	5,656	5,635	21
Administration	86,588	77,713	74,444	3,269
Town Clerk	5,204	5,204	4,908	296
Town Treasurer	4,403	4,403	4,388	15
Town Attorney	10,400	10,400	10,384	16
Municipal Judge	5,855	5,855	5,849	6
Police	352,441	368,141	367,863	278
Fire	33,093	43,093	32,700	10,393
Streets	112,979	124,879	124,772	107
Parks	7,200	12,200	12,093	107
Swimming Pool	32,246	33,746	33,519	227
General Government	79,800	79,800	70,053	9,747
Library	103,183	103,183	98,923	4,260
Cemetery	20,900	12,025	8,762	3,263
Total Charges to Appropriations	<u>859,898</u>	<u>886,298</u>	<u>854,293</u>	<u>32,005</u>
Ending Budgetary Fund Balance	<u>\$156,702</u>	<u>\$130,302</u>	<u>\$261,815</u>	<u>\$131,513</u>

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Budgetary Comparison Schedules (Modified Cash Basis) – Year Ended June 30, 2012 (Continued)

	RESTRICTED SALES TAX FUND			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Beginning Budgetary Fund Balance	\$405,000	\$405,000	\$404,640	(\$360)
Resources (Inflows):				
Taxes	345,000	345,000	411,840	66,840
Intergovernmental	-	-	15,000	15,000
Investment income	2,340	2,340	2,103	(237)
Miscellaneous	15,000	15,000	11,369	(3,631)
Total Resources (Inflows)	<u>362,340</u>	<u>362,340</u>	<u>440,312</u>	<u>77,972</u>
Amounts available for appropriation	<u>767,340</u>	<u>767,340</u>	<u>844,952</u>	<u>77,612</u>
Charges to appropriations (outflows):				
Police	45,000	56,500	55,999	501
EMS	203,620	203,620	203,611	9
Streets	90,000	91,550	14,669	76,881
Parks	10,000	41,725	36,725	5,000
General Government	2,500	2,500	-	2,500
Total Charges to Appropriations	<u>351,120</u>	<u>395,895</u>	<u>311,004</u>	<u>84,891</u>
Ending Budgetary Fund Balance	<u>\$416,220</u>	<u>\$371,445</u>	<u>\$533,948</u>	<u>\$162,503</u>

Footnotes to Budgetary Comparison Schedules:

1. The budgetary comparison schedules are reported on the same modified cash basis as governmental funds within the basic financial statements.
2. The legal level of appropriation control is the department level within a fund. Transfers of appropriation within a fund require Mayor's approval, while supplemental appropriations require Town Board approval.
3. The General fund budgetary comparison does not include the other combined accounts; see the schedule for combining General fund accounts on page 46 for comparison.

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NonMajor Governmental Funds Combining Balance Sheet (Modified Cash Basis) – June 30, 2012

	<u>Special Revenue Funds</u>				<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Street and Alley Fund</u>	<u>Library Fund</u>	<u>Juvenile Fund</u>	<u>Snyder Trust Fund</u>	<u>Cemetery Care Fund</u>	
ASSETS						
Cash and cash equivalents	\$ -	\$ 3,583	\$ 1,527	\$ -	\$ 1,227	\$ 6,337
Investments	36,298	-	15,500	34,783	97,051	183,632
Total assets	<u>\$ 36,298</u>	<u>\$ 3,583</u>	<u>\$ 17,027</u>	<u>\$ 34,783</u>	<u>\$ 98,278</u>	<u>\$ 189,969</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Due to other funds	\$ 64	\$ -	\$ -	\$ -	\$ -	\$ 64
Total liabilities	<u>\$ 64</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 64</u>
Fund balances:						
Restricted	36,234	-	17,027	34,783	98,278	186,322
Assigned	-	3,583	-	-	-	3,583
Total fund balances	<u>36,234</u>	<u>3,583</u>	<u>17,027</u>	<u>34,783</u>	<u>98,278</u>	<u>189,905</u>
Total liabilities and fund balances	<u>\$ 36,298</u>	<u>\$ 3,583</u>	<u>\$ 17,027</u>	<u>\$ 34,783</u>	<u>\$ 98,278</u>	<u>\$ 189,969</u>

NonMajor Governmental Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balances (Modified Cash Basis) – Year Ended June 30, 2012

	<u>Special Revenue Funds</u>				<u>Capital Project Fund</u>	<u>Total Governmental Funds</u>
	<u>Street and Alley Fund</u>	<u>Library Fund</u>	<u>Juvenile Fund</u>	<u>Snyder Trust Fund</u>	<u>Cemetery Care Fund</u>	
REVENUES						
Fees and fines	\$ -	\$ -	\$ 911	\$ -	\$ -	\$ 911
Intergovernmental	18,734	4,649	-	-	-	23,383
Charges for services	-	-	-	-	500	500
Investment income	175	5	-	169	462	811
Miscellaneous	-	6,944	-	-	-	6,944
Total revenues	<u>18,909</u>	<u>11,598</u>	<u>911</u>	<u>169</u>	<u>962</u>	<u>32,549</u>
EXPENDITURES						
Current:						
Streets	20,566	-	-	-	-	20,566
Library	-	13,092	-	-	-	13,092
Total Expenditures	<u>20,566</u>	<u>13,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,658</u>
Excess (deficiency) of revenues over expenditures	<u>(1,657)</u>	<u>(1,494)</u>	<u>911</u>	<u>169</u>	<u>962</u>	<u>(1,109)</u>
Net change in fund balances	(1,657)	(1,494)	911	169	962	(1,109)
Fund balances - beginning	37,891	5,077	16,116	34,614	97,316	191,014
Fund balances - ending	<u>\$ 36,234</u>	<u>\$ 3,583</u>	<u>\$ 17,027</u>	<u>\$ 34,783</u>	<u>\$ 98,278</u>	<u>\$ 189,905</u>

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Combining Balance Sheet – General Fund Accounts (Modified Cash Basis) – June 30, 2012

	<u>General Fund</u>	<u>CDBG Grant Fund</u>	<u>Rural Fire Fund</u>	<u>Total General Fund</u>
ASSETS				
Cash and cash equivalents	\$ 65,098	\$ 35	\$ 538	\$ 65,671
Investments	196,653	-	11,172	207,825
Due from other funds	64	-	-	64
Total assets	<u>\$ 261,815</u>	<u>\$ 35</u>	<u>\$ 11,710</u>	<u>\$ 273,560</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Total liabilities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:				
Assigned	-	35	11,710	11,745
Unassigned	261,815	-	-	261,815
Total fund balances	<u>261,815</u>	<u>35</u>	<u>11,710</u>	<u>273,560</u>
Total liabilities and fund balances	<u>\$ 261,815</u>	<u>\$ 35</u>	<u>\$ 11,710</u>	<u>\$ 273,560</u>

Combining Schedule of Revenues, Expenditures and Changes in Fund Balance – General Fund Accounts (Modified Cash Basis) – Year Ended June 30, 2012

	<u>General Fund</u>	<u>CDBG Grant Fund</u>	<u>Rural Fire Fund</u>	<u>Total General Fund Accounts</u>
REVENUES				
Taxes	\$ 627,653	\$ -	\$ -	\$ 627,653
Fees and fines	117,126	-	-	117,126
Licenses and permits	3,325	-	-	3,325
Intergovernmental	55,440	-	-	55,440
Charges for services	21,480	-	94	21,574
Investment income	1,037	-	54	1,091
Miscellaneous	36,174	-	-	36,174
Total revenues	<u>862,235</u>	<u>-</u>	<u>148</u>	<u>862,383</u>
 EXPENDITURES				
Current:				
General government	169,812	-	-	169,812
Police	406,412	-	-	406,412
Streets	119,264	-	-	119,264
Library	142,727	-	-	142,727
Cemetery	8,762	-	-	8,762
Capital Outlay	7,316	-	-	7,316
Total Expenditures	<u>854,293</u>	<u>-</u>	<u>-</u>	<u>854,293</u>
Excess (deficiency) of revenues over expenditures	<u>7,942</u>	<u>-</u>	<u>148</u>	<u>8,090</u>
 OTHER FINANCING SOURCES (USES)				
Transfers in	50,000	-	-	50,000
Total other financing sources and uses	<u>50,000</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
Net change in fund balances	57,942	-	148	58,090
Fund balances - beginning	203,873	35	11,562	215,470
Fund balances - ending	<u>\$ 261,815</u>	<u>\$ 35</u>	<u>\$ 11,710</u>	<u>\$ 273,560</u>

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Proprietary Fund Accounts Combining Schedule of Net Assets (Modified Cash Basis) – June 30, 2012

	<u>HUA Operating</u>	<u>OWRB Loan Account</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 32,760	\$ -	\$ 32,760
Investments	756,570	-	756,570
Restricted:			
Cash and cash equivalents	50,822	181	51,003
Investments	-	64,788	64,788
Total current assets	<u>840,152</u>	<u>64,969</u>	<u>905,121</u>
Non-current assets:			
Capital Assets:			
Land and construction in progress	384,895	-	384,895
Other capital assets, net of accumulated depreciation	1,493,662	-	1,493,662
Total non-current assets	<u>1,878,557</u>	<u>-</u>	<u>1,878,557</u>
Total assets	<u>2,718,709</u>	<u>64,969</u>	<u>2,783,678</u>
LIABILITIES			
Current liabilities:			
Deposits subject to refund	50,822	-	50,822
Notes payable	14,750	66,972	81,722
Total current liabilities	<u>65,572</u>	<u>66,972</u>	<u>132,544</u>
Non-current liabilities:			
Notes payable	87,293	758,815	846,108
Total non-current liabilities	<u>87,293</u>	<u>758,815</u>	<u>846,108</u>
Total liabilities	<u>152,865</u>	<u>825,787</u>	<u>978,652</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,776,514	(825,787)	950,727
Restricted for debt service	-	64,969	64,969
Restricted for capital projects	-	-	-
Restricted for other purposes	-	-	-
Unrestricted	789,330	-	789,330
Total net assets	<u>\$ 2,565,844</u>	<u>\$ (760,818)</u>	<u>\$ 1,805,026</u>

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Proprietary Fund Accounts Combining Schedule of Revenues, Expenses and Changes in Net Assets
(Modified Cash Basis) – Year Ended June 30, 2012

	HUA Operating Account	OWRB Loan Account	Total
REVENUES			
Charges for services:			
Water	\$ 605,240	\$ -	\$ 605,240
Sewer	273,147	-	273,147
Sanitation	258,871	-	258,871
Penalties	20,605	-	20,605
Reconnect fees	5,015	-	5,015
Miscellaneous	15,163	-	15,163
Total operating revenues	<u>1,178,041</u>	<u>-</u>	<u>1,178,041</u>
OPERATING EXPENSES			
General government	63,258	-	63,258
Water	327,836	-	327,836
Wastewater	68,685	-	68,685
Sanitation	241,146	-	241,146
Depreciation	101,980	-	101,980
Total operating expenses	<u>802,905</u>	<u>-</u>	<u>802,905</u>
Operating income	<u>375,136</u>	<u>-</u>	<u>375,136</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment income	3,300	270	3,570
Interest expense	-	(28,255)	(28,255)
Total non-operating revenue (expenses)	<u>3,300</u>	<u>(27,985)</u>	<u>(24,685)</u>
Income (loss) before transfers	<u>378,436</u>	<u>(27,985)</u>	<u>350,451</u>
Transfers in	-	97,500	97,500
Transfers out	(147,500)	-	(147,500)
Change in net assets	230,936	69,515	300,451
Total net assets (deficit) - beginning	<u>2,334,908</u>	<u>(830,333)</u>	<u>1,504,575</u>
Total net assets (deficit) - ending	<u>\$ 2,565,844</u>	<u>\$ (760,818)</u>	<u>\$ 1,805,026</u>

**TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

**Schedule of Expenditures of State Awards (Modified Cash Basis) – Year Ended
June 30, 2012**

State Grantor/Pass through agency Grantor/Program Title	CFDA Number	Pass Thru Grant #	Award Amount	Contract Expenditures
STATE AWARDS:				
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Community Wildfire Protection	N/A	N/A	\$ 10,000	\$ 10,000
<u>OKLAHOMA DEPARTMENT OF LIBRARIES:</u>				
State Aid FY 12	N/A	N/A	\$ 4,073	\$ 4,073
State Aid FY 11	N/A	N/A	-	-
State Aid FY 11	N/A	N/A	-	-
Continuing Education OLA Conference	N/A	N/A	76	76
Continuing Education OLA Conference	N/A	N/A	-	-
Early Literacy Materials	N/A	N/A	500	500
Total Oklahoma Department of Libraries			<u>4,649</u>	<u>4,649</u>
<u>DISTRICT ATTORNEY'S COUNCIL:</u>				
Reid Technology Seminar	N/A			
<u>NORTHERN OKLAHOMA DEVELOPMENT AUTHORITY:</u>				
REAP Grant	N/A	11 REAP FUND KF11-5	15,000	15,000
<u>OKLAHOMA DEPARTMENT OF AGRICULTURE:</u>				
Passed through Eastern Oklahoma Development District				
Rural Fire Grant	N/A	N/A	4,413	4,413
TOTAL STATE AWARDS			<u>\$ 34,062</u>	<u>\$ 34,062</u>

TOWN OF HENNESSEY, OKLAHOMA
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Schedule of Debt Service Coverage Requirements – Year Ended June 30, 2012

	OWRB NOTE
GROSS REVENUE AVAILABLE:	
Charges for services (water and sewer systems)	\$ 919,170
Investment income	3,570
Total Gross Revenue Available	922,740
OPERATING EXPENDITURES:	
Water	327,836
Sewer	68,685
Total Operating Expenditures	396,521
Net Revenue Available for Debt Service	\$ 526,219
Maximum Annual Debt Service on all Long-Term Debt Secured by Revenues of the System	\$ 93,657
Computed Coverage	562%
Coverage Requirement	125%

**TOWN OF HENNESSEY, OKLAHOMA
ANNUAL FINANCIAL REPORT
As of and for the Year Ended June 30, 2012**

INTERNAL CONTROL AND COMPLIANCE



**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
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, 2012, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 4, 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

Management of the Town is responsible for establishing and maintaining effective 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, 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.

Adledge & Associates, P.C.
Edmond, Oklahoma
December 4, 2012