

**Financial Statements and Reports of
Independent Certified Public Accountant
Town of Fairland, Oklahoma
June 30, 2011**

**TURNER & ASSOCIATES, PLC
Certified Public Accountants
P.O. Box 378
Vinita, OK 74301
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**Town of Fairland, Oklahoma
Town Officials
June 30, 2011**

Board of Trustees

Mayor	Andy Krebs
Mayor Pro-tem	Wade Caudill
Member	Mark Goode
Member	Kathy Smith

Treasurer

Sarah Hopkins

Clerk

Karen Lundsford

Town of Fairland, Oklahoma
Table of Contents

Independent Auditor’s Report	1-2
Report Required by <i>Government Auditing Standards</i> :	
Independent Auditor’s Report on Internal Control Over Financial Reporting and on Compliance Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	3-4
Basic Financial Statements:	
<i>Government-Wide Financial Statements</i>	
Statement of Net Assets	5
Statement of Activities	6-7
<i>Fund Financial Statements</i>	
Balance Sheet - Governmental Funds	8
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	9
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities	10
Statement of Net Assets – Proprietary Fund	11
Statement of Revenues, Expenses and Changes in Fund Balance – Proprietary Fund	12
Statement of Cash Flows – Proprietary Fund	13-14
Notes to the Financial Statements	15-35
Required Supplementary Information:	
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - Regulatory Basis - General Fund	36
Other Supplementary Information:	
Schedule of Expenditures of State and Federal Awards	37
Schedule of Findings and Comments	38-44



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Town Council
Town of Fairland, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Fairland, Oklahoma, 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 of Fairland, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Fairland, Oklahoma, as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011 on our consideration of the Town of Fairland's internal control over financial reporting and 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.

The Town of Fairland, Oklahoma has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fairland, Oklahoma's financial statements as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis and is not a required part of 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.

TURNER & Associates, PLLC

Vinita, OK
December 5, 2011



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

To the Town Council
Town of Fairland, Oklahoma

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Fairland, Oklahoma, as of and for the year ended June 30, 2011, which collectively comprise the Town of Fairland, Oklahoma's basic financial statements and have issued our report thereon dated December 5, 2011. The Town of Fairland, Oklahoma did not present the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements. 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 Fairland, Oklahoma'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 of Fairland, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Fairland, Oklahoma's internal control over financial reporting.

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

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. We consider the deficiencies, 2011-1 and 2011-2 described in the accompanying schedule of findings and responses to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies, 2011-3, 2011-4, 2011-5, and 2011-6 described in the accompany schedule of findings and responses to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Fairland, Oklahoma'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 certain instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-3, 2011-4, 2011-5, and 2011-6.

We noted certain matters that we reported to the management of the Town of Fairland, Oklahoma, in a separate letter dated December 5, 2011.

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

This report is intended solely for the information and use of management, the audit committee, Town Council, and others within the entity, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

TURNER & Associates, PLLC

Vinita, OK
December 5, 2011

Town of Fairland, Oklahoma
Statement of Net Assets
June 30, 2011

	Governmental Activities	Business-Type Activities	Total	Discretely Presented Component Unit
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 81,784.98	\$ 345,594.24	\$ 427,379.22	\$ 99,301.64
Investments	81,325.07	575,978.53	657,303.60	-
Deposit with Third Party Administrator	14,136.48	-	14,136.48	-
Accounts Receivable	-	307,084.13	307,084.13	-
Grant Receivable	-	11,396.31	11,396.31	-
Accrued Interest Receivable	57.51	778.24	835.75	-
Due from Other Governments	49,678.59	-	49,678.59	-
Prepaid Lease	-	2,333.33	2,333.33	-
Prepaid Insurance	1,389.44	644.09	2,033.53	-
Total Current Assets	<u>228,372.07</u>	<u>1,243,808.87</u>	<u>1,472,180.94</u>	<u>99,301.64</u>
Noncurrent Assets:				
Restricted Assets:				
Cash and Cash Equivalents	-	78,538.87	78,538.87	-
Investments	-	62,826.43	62,826.43	-
Capital Assets:				
Property, Plant and Equipment, net	850,422.68	1,217,930.96	2,068,353.64	633,219.48
Total Noncurrent Assets	<u>850,422.68</u>	<u>1,359,296.26</u>	<u>2,209,718.94</u>	<u>633,219.48</u>
TOTAL ASSETS	<u>1,078,794.75</u>	<u>2,603,105.13</u>	<u>3,681,899.88</u>	<u>732,521.12</u>
LIABILITIES				
Current Liabilities:				
Accounts Payable	5,540.04	14,475.35	20,015.39	-
Payroll Taxes Payable	2,174.61	1,521.90	3,696.51	-
Accrued Interest Payable	-	1,320.77	1,320.77	-
Current Portion of Notes Payable	-	29,176.65	29,176.65	-
Current Portion of Capitalized Lease Obligation	19,975.82	-	19,975.82	-
Total Current Liabilities	<u>27,690.47</u>	<u>46,494.67</u>	<u>74,185.14</u>	<u>-</u>
Noncurrent Liabilities:				
Payable from Restricted Assets:				
Meter Deposits Payable	-	106,445.30	106,445.30	-
Notes Payable	-	427,208.18	427,208.18	-
Capital Lease Obligation	36,608.11	-	36,608.11	-
Total Noncurrent Liabilities	<u>36,608.11</u>	<u>533,653.48</u>	<u>570,261.59</u>	<u>-</u>
TOTAL LIABILITIES	<u>64,298.58</u>	<u>580,148.15</u>	<u>644,446.73</u>	<u>-</u>
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	830,446.86	761,546.13	1,591,992.99	633,219.48
Restricted	14,136.48	34,920.00	49,056.48	-
Unrestricted	169,912.83	1,226,490.85	1,396,403.68	99,301.64
TOTAL NET ASSETS	<u>\$ 1,014,496.17</u>	<u>\$ 2,022,956.98</u>	<u>\$ 3,037,453.15</u>	<u>\$ 732,521.12</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Fairland, Oklahoma
Statement of Activities
June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) / Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government:					
Personal Services	\$ 37,721.11	\$ -	\$ -	\$ -	\$ (37,721.11)
Maintenance and Operation	120,274.59	7,933.44	-	-	(112,341.15)
Total General Government	157,995.70	7,933.44	-	-	(150,062.26)
Public Safety and Judiciary:					
Fire	73,990.38	36,088.42	4,397.72	-	(33,504.24)
Municipal Court	3,000.00	-	-	-	(3,000.00)
Police	154,546.48	15,906.72	-	-	(138,639.76)
Town Attorney	39,930.33	-	-	-	(39,930.33)
Total Public Safety and Judiciary	271,467.19	51,995.14	4,397.72	-	(215,074.33)
Transportation:					
Street and Alley	24,845.58	-	-	-	(24,845.58)
Parks and Recreation:					
Cemetery	15,403.65	802.50	-	-	(14,601.15)
Community Center	1,766.67	-	-	-	(1,766.67)
Parks	14,894.27	-	-	-	(14,894.27)
Total Culture, Parks, Recreation	32,064.59	802.50	-	-	(31,262.09)
Total Governmental Activities	486,373.06	60,731.08	4,397.72	-	(421,244.26)
Business-Type Activities					
Utility Revenue	684,703.55	695,374.16	-	31,725.56	42,396.17
Unallocated Depreciation Expense	55,054.00	-	-	-	(55,054.00)
Interest on Long-Term Debt	21,491.57	-	-	-	(21,491.57)
Total Business-Type Activities	761,249.12	695,374.16	-	31,725.56	(34,149.40)
Total Primary Government	\$ 1,247,622.18	\$ 756,105.24	\$ 4,397.72	\$ 31,725.56	\$ (455,393.66)
Discretely Presented Component Unit:					
Economic Development	\$ 27,515.39	\$ -	\$ -	\$ -	\$ (27,515.39)

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Fairland, Oklahoma
Statement of Activities (continued)
For the Year Ended June 30, 2011

	Governmental Activities			Discretely Presented Component Unit
	Governmental Activities	Business- Type Activities	Total	
Changes in Net Asset:				
Net (Expense)/Revenue	\$ (421,244.26)	\$ (34,149.40)	\$ (455,393.66)	\$ \$ (27,515.39)
General Revenues:				
Taxes:				
Sales and Use Taxes	252,794.44	65,588.87	318,383.31	-
Franchise and Public Service Taxes	29,480.11	-	29,480.11	-
Motor Vehicle Collections	7,332.77	-	7,332.77	-
Alcoholic Beverage Tax	4,762.13	-	4,762.13	-
Gasoline Tax	1,625.83	-	1,625.83	-
Occupation Tax	1,040.00	-	1,040.00	-
Tobacco Tax	3,081.49	-	3,081.49	-
Investment Income	2,595.28	6,823.15	9,418.43	251.44
Rental or Lease of Property	1,202.50	-	1,202.50	-
Donations	17,345.15	-	17,345.15	-
Miscellaneous	13,401.89	2,342.50	15,744.39	190.00
Transfers-Internal Activity	85,000.00	(85,000.00)	-	-
Total General Revenues and Transfers	419,661.59	(10,245.48)	409,416.11	441.44
Change in Net Assets	(1,582.67)	(44,394.88)	(45,977.55)	(27,073.95)
Net Assets, Beginning of Year	1,016,078.84	2,067,351.86	3,083,430.70	759,595.07
Net Assets, End of Year	\$ 1,014,496.17	\$ 2,022,956.98	\$ 3,037,453.15	\$ 732,521.12

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Fairland, Oklahoma
Balance Sheet – Governmental Funds
June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Cash Equivalents	\$ 32,132.21	\$ 49,652.77	81,784.98
Investments	11,903.93	69,421.14	81,325.07
Deposit from Third Party Administrator	14,136.48	-	14,136.48
Due from Other Governments	49,678.59	-	49,678.59
Prepaid Insurance	1,389.44	-	1,389.44
Accrued Interest Receivable	-	57.51	57.51
TOTAL ASSETS	109,240.65	119,131.42	228,372.07
LIABILITIES AND FUND EQUITY			
Liabilities:			
Accounts Payable	5,540.04	-	5,540.04
Payroll Taxes Payable	2,174.61	-	2,174.61
Total Liabilities	7,714.65	-	7,714.65
Fund Equity:			
Cash Fund Balance, Unassigned	101,526.00	119,131.42	220,657.42
TOTAL LIABILITIES AND FUND EQUITY	\$ 109,240.65	\$ 119,131.42	\$ 228,372.07
<u>Reconciliation to the Statement of Net Assets</u>			
Total Governmental Funds Balance			220,657.42
Amounts reported for governmental activities in the Statement of Net Assets are different because:			
Capital assets used in governmental activities are not financial resources and therefore, are not reported as assets in governmental funds. The cost of the assets is \$1,297,456.60 and the accumulated depreciation is \$447,033.92 for a net book value of \$850,422.68			
			850,422.68
Long-term liabilities, including capitalized lease obligations, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consists of:			
Capitalized Lease Obligations Payable			(56,583.93)
Net assets of Governmental Activities			\$ 1,014,496.17

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Fairland, Oklahoma
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2011

	General Fund	Other Governmental Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 295,354.27	4,800.00	300,154.27
Charges for Services	37,736.97	-	37,736.97
Donations	4,535.53	2,609.62	7,145.15
Fines and forfeitures	15,869.22	-	15,869.22
Fire Runs	6,284.89	-	6,284.89
Grants	4,397.72	-	4,397.72
Investment Income	555.52	2,039.76	2,595.28
Miscellaneous	14,093.27	108.62	14,201.89
Sale of Property	1,202.50	802.50	2,005.00
Total Revenues	380,029.89	10,360.50	390,390.39
Expenditures:			
General Government			
Personal Services	41,120.55	-	41,120.55
Maintenance and Operation	104,579.15	-	104,579.15
Public Safety and Judiciary			
Fire	45,371.45	-	45,371.45
Municipal Court	3,000.00	-	-
Police	145,480.14	1,600.15	147,080.29
Town Attorney	39,930.33	-	39,930.33
Transportation			
Street and Alley	21,252.14	-	21,252.14
Parks and Recreation			
Cemetery	15,403.65	-	15,403.65
Parks	10,709.98	-	10,709.98
Capital Outlay	37,621.72	3,717.65	41,339.37
Total Expenditures	464,469.11	5,317.80	469,786.91
Excess (Deficit) of Revenues over Expenditures	(84,439.22)	5,042.70	(79,396.52)
Other Financing Sources (Uses)			
Transfer from PWA	85,000.00	-	85,000.00
Net Change in Fund Balance	560.78	5,042.70	5,603.48
Fund Balance, Beginning of Year	100,965.22	114,088.72	215,053.94
Fund Balance, End of Year	<u>\$ 101,526.00</u>	<u>119,131.42</u>	<u>220,657.42</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Fairland, Oklahoma
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2011

Net Change in Fund Balances - Governmental Funds	\$	5,603.48
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Amounts reported for governmental activities in the Statement of Activities are different because:

In the governmental funds, capital outlays are reported as expenditures while in the government-wide statement of activities, depreciation expense is reported to allocate those expenditures over the life of the assets.

Capital asset purchases capitalized	25,000.00	
Loss on Disposal of Assets	(5,878.05)	
Depreciation expense	<u>(48,374.53)</u>	(29,252.58)

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the government-wide statements.

Principal payments on Long Term Debt		<u>22,066.43</u>
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Change in Net Assets of Governmental Activities	\$	<u>(1,582.67)</u>
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Town of Fairland, Oklahoma
Statement of Net Assets – Proprietary Fund
June 30, 2011

	Public Works Authority <u>Enterprise Fund</u>
ASSETS:	
Current Assets:	
Cash and Cash Equivalents	\$ 345,594.24
Investments	575,978.53
Accounts Receivable	307,084.13
Grant Receivable	11,396.31
Prepaid Insurance	644.09
Prepaid Lease	2,333.33
Accrued Interest Receivable	778.24
Total Current Assets	<u>1,243,808.87</u>
Non-Current Assets:	
Restricted Assets:	
Cash and Cash Equivalents	78,538.87
Investments	62,826.43
Capital Assets:	
Property, Plant and Equipment, net of Accumulated Depreciation	1,217,930.96
Total NonCurrent Assets	<u>1,359,296.26</u>
TOTAL ASSETS	<u>2,603,105.13</u>
LIABILITIES:	
Current Liabilities:	
Accounts Payable	14,475.35
Payroll Taxes Payable	1,521.90
Accrued Interest	1,320.77
Current Portion of Notes Payable	29,176.65
Total Current Liabilities	<u>46,494.67</u>
Noncurrent Liabilities	
Payable from Restricted Assets:	
Meter Deposits Payable	106,445.30
Notes Payable	427,208.18
Total Noncurrent Liabilities	<u>533,653.48</u>
TOTAL LIABILITIES	<u>580,148.15</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	761,546.13
Restricted	34,920.00
Unrestricted	1,226,490.85
TOTAL NET ASSETS	<u>\$ 2,022,956.98</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Fairland, Oklahoma
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds
For the Year Ended June 30, 2011

	Public Works Authority <u>Enterprise Fund</u>
Operating Revenues	
Utility Revenue	<u>\$ 697,716.66</u>
Operating Expenses	
Depreciation	55,054.00
Gas Costs	335,977.81
Gas Operator	58,821.78
Insurance	6,855.72
Lab Tests	8,642.40
Office Supplies	1,311.20
Other Expenses	14,695.26
Lease Expense	166.67
Supplies & Materials	6,361.11
Payroll Taxes	6,308.06
Professional Fees	36,721.11
Maintenance and Repairs	13,903.66
Salaries	21,762.48
Trash Hauling	101,056.74
Utilities	24,084.50
Sewer Operator	22,632.60
Water Operator	25,402.45
Total Operating Expenses	<u>739,757.55</u>
Operating Income (Loss)	<u>(42,040.89)</u>
Non-Operating Revenues (Expenses)	
Interest Income	6,823.15
Interest Expense	(21,491.57)
Sales Tax Income	65,588.87
Grant Revenue	31,725.56
Transfers to General Fund	(85,000.00)
Total Non-Operating Revenues (Expenses)	<u>(2,353.99)</u>
Change in Net Assets	(44,394.88)
Net Assets, Beginning of Year	<u>2,067,351.86</u>
Net Assets, End of Year	<u>\$ 2,022,956.98</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Fairland, Oklahoma
Statement of Cash Flows – Proprietary Fund
For the Year Ended June 30, 2011

	<u>Public Works Authority Enterprise Fund</u>
Cash Flows from Operating Activities	
Cash Inflows:	
Payments Received from Customers	\$ 678,258.89
Meter Deposits Received	15,150.00
Total Cash Provided	<u>693,408.89</u>
Cash Outflows:	
Payments for Salaries and Benefits	(28,934.98)
Payments for Goods and Services	(655,197.55)
Meter Deposits Refunded	<u>(6,193.05)</u>
Total Cash Used	<u>(690,325.58)</u>
Net Cash Provided (Used) by Operating Activities	<u>3,083.31</u>
Cash Flows from Noncapital Financing Activities	
Sales Tax Income	65,588.87
Grant Income	20,329.25
Purchase of Capital Assets	(56,905.37)
Transfers to General Fund	(85,000.00)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(55,987.25)</u>
Cash Flows from Capital and Related Financing Activities	
Principal Paid on Capital Debt	(27,875.44)
Interest Paid on Capital Debt	<u>(21,596.70)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(49,472.14)</u>
Cash Flows from Investing Activities	
Interest	7,597.01
Sale of Investments	<u>75,030.14</u>
	<u>82,627.15</u>
Net Cash Inflow (Outflow) from All Activities	(19,748.93)
Cash and Cash Equivalents, Beginning of Year	<u>443,882.04</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 424,133.11</u></u>
Cash and Cash Equivalents	
Unrestricted	\$ 345,594.24
Restricted	<u>78,538.87</u>
	<u><u>\$ 424,133.11</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Town of Fairland, Oklahoma
Statement of Cash Flows – Proprietary Fund (continued)
For the Year Ended June 30, 2011

	<u>Public Works Authority Enterprise Fund</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (42,040.89)
Depreciation	55,054.00
(Increase) Decrease in:	
Accounts Receivable	(19,457.77)
Prepaid Insurance	138.81
Prepaid Lease	(2,333.33)
Increase (Decrease) in:	
Accounts Payable	3,023.43
Payroll Taxes Payable	(257.89)
Meter Deposits Payable	<u>8,956.95</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 3,083.31</u></u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the Town's financial statements.

The Towns financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide Statement of Net Assets and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. Proprietary funds also apply the same principles. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

A. Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government:	Town of Fairland
Blended Component Unit:	Fairland Public Works Authority
Discretely Presented Component Unit:	Fairland Economic Development Authority

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 of which the Town appointed a voting majority of the units' board and the Town is either able to impose its will on the unit or a financial benefit or burden relationship exists.

Blended Component Units

Blended component units are separate legal entities that meet the component unit criteria described above and whose governing body is the same or substantially the same as the Town Council or the component unit provides services entirely to the Town. The component unit's fund is blended into those of the Town's by appropriate activity type to comprise the primary government presentation. Additional detailed information and/or separately issued financial statements for this component unit can be obtained from the City Clerk.

Component units that are blended into the reporting activity types of the Town's reports are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Fairland Public Works Authority	Created to finance, develop and operate the utilities services activities. The current Town Council serves as the governing body (Trustees). Any issuance of debt would require a two-thirds approval of the Town Council.	Enterprise Fund

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

A. Reporting Entity (continued)

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. Additional detailed information and/or separately issued financial statements for this component unit can be obtained from the City Clerk.

Component units that are discretely presented are presented below:

Component Unit	Brief Description/Inclusion Criteria	Reporting
Fairland Economic Development Authority	Created to finance, develop and operate economic development activities. The current Town Council appoints members (Trustees).	Special Revenue Fund

B. Basis of Presentation

Government-Wide Financial Statements

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

Fund Financial Statements

Fund financial statements of the reporting entity are organized into funds each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues and expenditure/expenses. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. A fund is considered major if it is the primary operating fund of the Town or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type, and
- b. Total assets, liabilities, revenues or expenditure/expenses of that individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

The funds of the financial reporting entity are described below:

Governmental Funds

General Fund

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

Special Revenue Funds

Special revenue funds are used to account for the proceeds of specific revenue sources that are legally or administratively restricted to expenditures for certain purposes.

Proprietary Fund

Enterprise Fund

Enterprise funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector. The reporting entity includes the following enterprise fund:

Fairland Public Works Authority	Accounts for activities of the public trust in providing water services to the public.
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Major and Non-Major Funds

Major: General Fund
Proprietary Fund: Fairland Public Works Authority

Non-Major: Special Revenue Fund: Cemetery Perpetual Care Fund
Special Revenue Fund: Cemetery Care Land Purchase Fund
Special Revenue Fund: Festival Fund
Special Revenue Fund: Capital Improvement Fund
Special Revenue Fund: Park and Playground Equipment Fund
Special Revenue Fund: Fair Law Enforcement Block Grant Fund
Special Revenue Fund: Police Narcotics Fund
Special Revenue Fund: CDBG Fund
Special Revenue Fund: Welcome Warmth
Special Revenue Fund: Police Equipment Fund

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus as defined in item b. below.

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applied to them.

Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-like activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds and agency funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity

Cash and Investments

For the purpose of the Statement of Net Assets, “cash, including time deposits” includes all demand, savings accounts, and certificates of deposit of the Town. For the purposes of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” includes all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Deposits with Third-Party Administrator

Certain sales tax revenues designated for the Fire Department are received and disbursed by the Ottawa County Clerk. The cash balance as of June 30, 2011 was \$14,136.48.

Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include sales, use taxes, and franchise taxes. Business-type activities report utility charges as its major receivable.

In the fund financial statements, material receivables in governmental funds include revenue accruals such as sales tax, franchise tax, and other intergovernmental revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available. Proprietary fund material receivables consist of all revenues earned at year-end and not yet received. Utility accounts receivable comprise the majority of proprietary fund receivables.

Capital Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements. The Town of Fairland currently has no capitalization policy.

Government-Wide Statements

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets, which are recorded at their estimated fair value at the date of donation.

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

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity

Capital Assets (continued)

The range of estimated useful lives by type of asset is as follows:

Buildings	20-60 years
Improvements	20-60 years
Machinery and Equipment	3-20 years
Utility System	20-60 years
Infrastructure	20-60 years

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Restricted Assets

Restricted assets include cash and investments of the proprietary fund that are legally restricted as to their use. Financial requirements of the promissory notes with RECD require that funds be held in a reserve account. Under the terms and provisions of the promissory notes, these funds are maintained with the Trustee bank and are not subject to lien or attachment by any other creditors. These funds are to be maintained so long as the notes are outstanding. Also included in restricted assets are funds on deposit representing utility customer meter deposits which are refundable to the customer.

Long-Term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. The long-term debt consists primarily of note payable and capitalized lease obligations.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements. The debt proceeds are reported as revenue and payments of principal and interest are reported as expenditures. The accounting for long-term debt of the proprietary fund is the same in the fund statements as it is in the government-wide statements.

Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Compensated Absences

The Town's policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences (when material) is recorded as long-term debt in the government-wide financial statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred

Equity Classifications

Net Assets/Fund Balance

In the government-wide financial statement, net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consists of capital assets, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation.

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints places on the use of resources for specific purposed versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e, fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund)) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The Town's Board of Trustees is the highest level of decision making authority of the Town.

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities and Equity (continued)

Equity Classifications (continued)

Net Assets/Fund Balance (continued)

Assigned fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

Resource Use Policy

It is in the Town's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including fund balances, are available, the Town considers the restricted amounts to be spent first before any unrestricted amounts are used. Furthermore, it is the Town's policy that when an expenditure/expense is incurred for purposes for which committed, assigned or unassigned resources, including fund balances, are available, the Town considers committed, amounts to be spent first, followed by assigned amounts, and lastly, unassigned amounts.

E. Revenues, Expenditures and Expenses

Sales Tax

The Town presently levies a sales tax on taxable sales within the Town. The sales tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission. The Tax Commission receives the sales tax approximately one month after collection by vendors. The sales tax is recorded entirely in the General Fund. Sales taxes collected by the State in June and July (which represent sales for May and June) and received by the Town in July and August have been accrued and are included under the caption "Due from other governments."

Use Tax

The Town levies a use-tax on personal property purchased outside the town limits but stored, used or consumed within the town. The use tax is collected by the Oklahoma Tax Commission and remitted to the Town in the month following receipt by the Tax Commission, which is one month after the tax is received from the vendors. The use taxes are allocated entirely to the General Fund. Use taxes collected by the State in June and July and received by the Town in July and August are included under the caption "Due from other governments."

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

I. Summary of Significant Accounting Policies (continued)

E. Revenues, Expenditures, and Expenses (continued)

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.

Expenditures/Expenses

In the government-wide financial statements, expenses are classified by function for both governmental and business-type activities.

In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character: Current (further classified by function), Debt Service, Capital Outlay

Proprietary Funds – By Operating and Non-Operating

In the fund financial statements, governmental funds report expenditures of financial resources. Proprietary funds report expenses relating to use of economic resources.

Interfund Transfers

Permanent re-allocations of resources between funds of the reporting entity are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. Stewardship, Compliance and Accountability

By its nature as a local government unit, the Town and its component unit are subject to various federal, state, and local laws and contractual regulations. An analysis of the Town's compliance with significant laws and regulations and demonstration of its stewardship over Town resources follows.

A. Fund Accounting Requirements

The Town complies with all state and local laws and regulations requiring the use of separate funds. The legally required funds used by the town include the following:

<u>Fund</u>	<u>Required By</u>
Utility Authority Fund	Trust Indenture
Economic Development Authority Fund	Trust Indenture
Cemetery Care Fund	State Law
CDBG Fund	Grant Agreement

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

II. Stewardship, Compliance and Accountability (continued)

B. Deposit and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Town must have a written collateral agreement approved by the board of directors or loan committee. As reflected in note III A., all deposits were fully insured or collateralized.

C. Revenue Restrictions

The Town has various restrictions placed over certain revenue sources from state or local requirements. The primary restricted revenue sources include:

<u>Revenue Source</u>	<u>Legal Restrictions of Use</u>
Special Sales Tax	Fire Department Purposes
Gasoline Excise Tax	Street and Alley Purposes
Commercial Vehicle Tax	Street and Alley Purposes
Utility Revenue	Debt Service and Utility Operations

For the year ended June 30, 2011, the Town complied, in all material respects, with these revenue restrictions.

D. Debt Restrictions and Covenants

General Obligation Debt

Article 10, Sections 26 and 27 of the Oklahoma Constitution limits the amount of outstanding general obligation bonded debt of the municipality for non-utility or non-street purposes to no more than 10% of net assessed valuation. For the year ended June 30, 2011, the Town had no outstanding general obligation debt.

Other Long-Term Debt

Except as noted in the following paragraph, as required by the Oklahoma State Constitution, the Town (excluding Public Trusts) may not incur any indebtedness that would require payment from resources beyond the current fiscal year revenue, without first obtaining voter approval. For the year ended June 30, 2011, the Town incurred no such indebtedness.

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

II. Stewardship, Compliance and Accountability (continued)

D. Debt Restrictions and Covenants (continued)

Notes Payable

The various loan agreements relating to the notes payable issuances of Fairland Public Works Authority contain some financial restrictions or covenants. These include covenants such as the required reserve account balances. The following schedule presents a brief summary of the most significant requirements and the Authority's level of compliance thereon as of June 30, 2011.

<u>Requirement</u>	<u>Level of Compliance</u>
RECD Loan Agreements:	
Reserve Account Requirement	
Account balance should be equal to \$34,920.	Account balance at June 30, 2011 exceeds \$34,920.

E. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Town complied with this statute in all material respects for the year ended June 30, 2011.

III. Detailed Notes on Transaction Classes/Accounts

A. Cash and Investments

Authorized Investments

Town policy for eligible investments is governed by State statutes which, in general, allow the Town to invest in obligations of the United States and insured or collateralized Certificate of Deposits. Investment income is recorded in the fund in which it is earned.

Custodial Credit Risk – Deposit: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. The Town does not have a deposit policy for custodial credit risk. As of June 30, 2011, the Town and Public Works were fully collateralized.

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes on Transaction Classes/Accounts (continued)

B. Restricted Assets

The amounts reported as restricted assets are comprised of cash held in trust on behalf of the Public Works Authority related to their required note payable reserve account and amounts held in trust for customer utility meter deposits.

The restricted assets as of June 30, 2011 are as follows:

Gas Meter Deposits	\$ 62,787.70
Water Meter Deposits	43,657.60
Loan Reserve Requirement	<u>34,920.00</u>
	<u>\$ 141,365.30</u>

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes on Transaction Classes/Accounts (continued)

C. Capital Assets

Capital asset activity for the year was as follows:

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Governmental Activities:				
Non-depreciable assets:				
Land	\$ 20,972.00	\$ -	\$ -	\$ 20,972.00
Depreciable assets:				
Buildings/Improvements	623,376.86	-	-	623,376.86
Machinery and Equipment	626,365.74	34,727.00	7,985.00	653,107.74
Total Depreciable assets	1,249,742.60	34,727.00	7,985.00	1,276,484.60
Total Capital Assets	1,270,714.60	34,727.00	7,985.00	1,297,456.60
Accumulated Depreciation:				
Buildings/Improvements	(228,560.31)	(12,725.58)	-	(241,285.89)
Machinery and Equipment	(172,206.03)	(35,648.95)	(2,106.95)	(205,748.03)
Total Accum Depr	(400,766.34)	(48,374.53)	(2,106.95)	(447,033.92)
Net Capital Assets	\$ 869,948.26	\$ (13,647.53)	\$ 5,878.05	\$ 850,422.68
Business-Type Activities:				
Non-depreciable assets:				
Land	\$ 143,914.31	\$ -	\$ -	\$ 143,914.31
Depreciable assets:				
Organizational Costs	3,538.39	-	-	3,538.39
Engineering Fees	266,667.07	31,725.56	-	298,392.63
Water/Sewer System	1,884,130.02	25,179.81	-	1,909,309.83
Equipment	12,321.58	-	-	12,321.58
Total Depreciable assets	2,166,657.06	56,905.37	-	2,223,562.43
Total Capital Assets	2,310,571.37	56,905.37	-	2,367,476.74
Accumulated Depreciation:				
Organizational Costs	(3,538.39)	-	-	(3,538.39)
Engineering Fees	(70,562.23)	(6,804.85)	-	(77,367.08)
Water/Sewer System	(1,012,339.63)	(47,470.47)	-	(1,059,810.10)
Equipment	(8,051.53)	(778.68)	-	(8,830.21)
	(1,094,491.78)	(55,054.00)	-	(1,149,545.78)
Net Capital Assets	\$ 1,216,079.59	\$ 1,851.37	\$ -	\$ 1,217,930.96

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

C. Capital Assets (continued)

	Balance June 30, 2010	Additions	Disposals	Balance June 30, 2011
Component Unit Activities:				
Non-depreciable assets:				
Land	\$ 89,982.19	\$ -	\$ -	\$ 89,982.19
Depreciable assets:				
Infrastructure	794,981.40	-	-	794,981.40
Total Capital Assets	884,963.59	-	-	884,963.59
Accumulated Depreciation:				
Infrastructure	(238,494.42)	(13,249.69)	-	(251,744.11)
Net Capital Assets	<u>\$ 646,469.17</u>	<u>\$ (13,249.69)</u>	<u>\$ -</u>	<u>\$ 633,219.48</u>

Depreciation expense was charged to governmental activities as follows:

General Government	\$ 5,106.14
Public Safety and Judiciary	
Fire	30,475.45
Police	3,248.54
Parks and Recreation	
Community Center	1,766.67
Parks	4,184.29
Street and Alley	3,593.44
Total Depreciation Expense	<u>\$ 48,374.53</u>

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

D. Accounts Receivable

Accounts receivable of the governmental activities consists of franchise tax, occupation tax, sales and use tax, motor vehicle collections and gasoline tax, and alcoholic beverage tax. Accounts receivable of the business-type activities consists of utilities customer accounts receivable. Accounts receivable as of June 30, 2011 is as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Accounts receivable	\$ -	\$ 307,084.13	\$ 307,084.13
Grant receivable	-	11,396.31	11,396.31
Due from other governments	49,678.59	-	49,678.59
Total	<u>\$ 49,678.59</u>	<u>\$ 318,480.44</u>	<u>\$ 368,159.03</u>

E. Long-Term Debt

The reporting entity's long-term debt is segregated between the amounts to be repaid from governmental activities, business-type activities and discretely presented component units. Per 62 O.S. 430.1, any lease obligations from governmental activities extending beyond June 30 of the fiscal year shall contain provisions for mutual ratification of renewal.

Governmental Activities

As of June 30, 2011, the governmental long-term debt of the financial reporting entity consisted of the following:

The Fire Department executed a lease to purchase a 1998 International 2000 Gallon Tanker on November 30, 2009. The amount of the lease is \$81,700 with interest at 3.78%, payable in 48 monthly statements of \$1,836.91 beginning December 30, 2009 and maturing November 30, 2013. Future payments are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	18,797.32	1,408.69	20,206.01
2013	21,261.61	781.31	22,042.92
2014	9,086.50	85.97	9,172.47
Totals	<u>\$ 49,145.43</u>	<u>\$ 2,275.97</u>	<u>\$ 51,421.40</u>

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Governmental Activities (continued)

The Fire Department executed a lease to purchase a Genesis Rescue Tool on December 20, 2010. The amount of the lease is \$9,727 with interest at 3.98%, payable in 48 monthly statements of \$219.61 beginning January 20, 2011 and maturing December 20, 2014. Future payments are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	1,178.50	139.16	1,317.66
2013	2,429.38	205.94	2,635.32
2014	2,528.20	107.12	2,635.32
2015	1,302.42	15.24	1,317.66
Totals	<u>\$ 7,438.50</u>	<u>\$ 467.46</u>	<u>\$ 7,905.96</u>

Debt service requirements for all governmental activities are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	19,975.82	1,547.85	21,523.67
2013	23,690.99	987.25	24,678.24
2014	11,614.70	193.09	11,807.79
2015	1,302.42	15.24	1,317.66
Totals	<u>\$ 56,583.93</u>	<u>\$ 2,743.43</u>	<u>\$ 59,327.36</u>

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities

As of June 30, 2011, the long-term debt payable from proprietary fund resources consisted of the following:

A note payable (#91-03) due in 40 years to the Rural Economic Community Development Authority in the principal amount of \$280,000.00 was issued on October 20, 1988. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$1,375.00 starting November 20, 1990. The note matures as follows:

Year Ended June 30,	Principal	Interest	Total
2012	7,272.13	9,227.87	16,500.00
2013	7,644.19	8,855.81	16,500.00
2014	8,035.27	8,464.73	16,500.00
2015	8,446.38	8,053.62	16,500.00
2016	8,878.50	7,621.50	16,500.00
2017-2021	51,689.13	30,810.87	82,500.00
2022-2026	66,335.67	16,164.33	82,500.00
2027-2028	29,559.20	1,470.47	31,029.67
	<u>\$ 187,860.47</u>	<u>\$ 90,669.20</u>	<u>\$ 278,529.67</u>

A note payable (#91-04) due in 40 years to the Rural Economic Community Development Authority in the principal amount of \$74,000.00 was issued on October 20, 1988. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$364.00 starting November 20, 1990. The note matures as follows:

Year Ended June 30,	Principal	Interest	Total
2012	1,942.92	2,425.08	4,368.00
2013	2,042.32	2,325.68	4,368.00
2014	2,146.80	2,221.20	4,368.00
2015	2,256.62	2,111.38	4,368.00
2016	2,372.08	1,995.92	4,368.00
2017-2021	13,809.90	8,030.10	21,840.00
2022-2026	17,723.01	4,116.99	21,840.00
2027-2028	7,090.69	319.38	7,410.07
Totals	<u>\$ 49,384.34</u>	<u>\$ 23,545.73</u>	<u>\$ 72,930.07</u>

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities (continued)

A note payable (#92-02) due in 40 years to the Rural Economic Community Development Authority in the principal amount of \$238,400.00 was issued on July 23, 1986. The note bears interest at 5% with interest only due for the first two years and then monthly installments of \$1,171.00 starting August 23, 1988. The note matures as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	6,972.84	7,079.16	14,052.00
2013	7,329.59	6,722.41	14,052.00
2014	7,704.58	6,347.42	14,052.00
2015	8,098.77	5,953.23	14,052.00
2016	8,513.10	5,538.90	14,052.00
2017-2021	49,561.86	20,698.14	70,260.00
2022-2026	56,569.46	6,726.29	63,295.75
Totals	<u>\$ 144,750.20</u>	<u>\$ 59,065.55</u>	<u>\$ 203,815.75</u>

The Public Works Authority executed a lease to purchase a 2007 KME IHC Pumper Fire Apparatus on June 13, 2009. The amount of the lease is \$99,472.61 with a variable interest rate of 2.25%, payable in 48 monthly installments of \$1,210.76 beginning July 15, 2009. Future payments are as follows:

Year Ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	12,988.76	1,540.36	14,529.12
2013	13,284.03	1,245.09	14,529.12
2014	13,586.04	943.08	14,529.12
2015	13,894.87	634.25	14,529.12
2016	14,210.75	318.37	14,529.12
2017	6,425.37	37.72	6,463.09
Totals	<u>\$ 74,389.82</u>	<u>\$ 4,718.87</u>	<u>\$ 79,108.69</u>

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

III. Detailed Notes Concerning the Funds (continued)

E. Long-Term Debt (continued)

Business-Type Activities (continued)

Debt service requirements for all business-type activities are as follows:

Year Ended June 30,	Principal	Interest	Total
2012	29,176.65	20,272.47	49,449.12
2013	30,300.13	19,148.99	49,449.12
2014	31,472.69	17,976.43	49,449.12
2015	32,696.64	16,752.48	49,449.12
2016	33,974.43	15,474.69	49,449.12
2017-2021	121,486.26	59,576.83	181,063.09
2022-2026	140,628.14	27,007.61	167,635.75
2027-2028	36,649.89	1,789.85	38,439.74
Totals	\$ 456,384.83	\$ 177,999.35	\$ 634,384.18

F. Changes in Long-Term Debt

The following is a summary of the changes in general long-term debt for the fiscal year ended June 30, 2011:

	Balance June 30, 2010	Proceeds	Payments	Balance June 30, 2011	Due Within One Year
Governmental Activities:					
Lease Obligations	\$ 68,923.36	\$ 9,727.00	\$ 22,066.43	\$ 56,583.93	\$ 19,975.82
Business-Type Activities:					
Notes Payable	397,177.38	-	15,182.37	381,995.01	16,187.89
Lease Obligation	87,082.89	-	12,693.07	74,389.82	12,988.76
Total Business-Type	\$ 484,260.27	\$ -	\$ 27,875.44	\$ 456,384.83	\$ 29,176.65

IV. Other Information

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Town purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

**Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011**

IV. Other Information (continued)

B. Proprietary Fund Rates and Charges

Water Rates and Charges		
Minimum monthly charge on first 2,000 gallons	\$	10.00
Price per thousand gallons for next 8,000 gallons		0.80
Price per thousand gallons on gallons over 10,000		1.00
Sewer Rates and Charges		
Minimum monthly charge	\$	11.00
Price per thousand gallons for all gallons over zero		1.75
Gas Rates and Charges		
Minimum monthly charge	\$	5.00
Price per MCF is determined by monthly cost		various
Trash Rates and Charges		
Residential - minimum monthly charge	\$	8.40
Commercial - separately negotiated		various
Initial Meter Installation Fees (Residential and Commercial)		
Water Meter Tap Fee	\$	450.00
Gas Meter Tap Fee		450.00
Sewer Tap Fee		100.00
Reconnect Fee		50.00
Meter Deposit (Residential and Commercial)		
Water	\$	75.00
Gas		162.50

C. Contingent Liabilities

The governing board of the Town is not aware of any pending or threatened legal actions against it. However, any such actions would probably be covered by insurance.

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

Town of Fairland, Oklahoma
Notes to the Financial Statements
For the Year Ended June 30, 2011

IV. Other Information (continued)

D. Subsequent Events

Management has evaluated subsequent events through December 2, 2011, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

E. Correction of an Error

The beginning Public Works net assets were understated the prior year by \$229,104.72 due to a utility billing error. To correct this error, the beginning net assets of \$1,838,247.13, as originally reported, has been increased to \$2,067,351.86.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Fairland, Oklahoma
Combined Statement of Revenues Collected, Expenditures Paid and
Changes in Fund Balances - Budget and Actual -
Regulatory Basis - General Fund
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget Variance</u>	
	<u>Original</u>	<u>Final</u>		<u>Original to Final</u>	<u>Final to Actual</u>
Revenues:					
Charges for Services	\$ 45,387.29	\$ 45,387.29	\$ 38,319.53	\$ -	\$ (7,067.76)
Local Sources	136,261.02	136,261.02	154,199.07	-	17,938.05
State Sources	246,811.68	246,811.68	263,242.68	-	16,431.00
Miscellaneous	8,185.65	8,185.65	10,446.94	-	2,261.29
Total Revenues Collected	<u>436,645.64</u>	<u>436,645.64</u>	<u>466,208.22</u>	<u>-</u>	<u>29,562.58</u>
Expenditures:					
Managerial	9,675.00	3,875.04	5,108.34	(5,799.96)	(1,233.30)
Town Clerk	14,125.00	12,875.04	12,738.17	(1,249.96)	136.87
Town Treasurer	3,700.00	3,750.00	3,657.35	50.00	92.65
Town Attorney	50,000.00	41,000.04	37,981.36	(8,999.96)	3,018.68
Municipal Court	2,400.00	3,000.00	2,700.00	600.00	300.00
General Government	128,841.99	127,942.04	127,742.88	(899.95)	199.16
Street and Alley	20,500.00	21,699.96	21,083.77	1,199.96	616.19
Park	10,500.00	10,699.92	10,152.41	199.92	547.51
Police	138,500.00	146,000.00	145,340.21	7,500.00	659.79
Fire Department	10,800.00	18,800.00	18,188.17	8,000.00	611.83
Cemetery	16,400.00	15,800.04	15,689.92	(599.96)	110.12
Other	98,287.56	98,287.56	76,793.45	-	21,494.11
Total Expenditures Paid	<u>503,729.55</u>	<u>503,729.64</u>	<u>477,176.03</u>	<u>0.09</u>	<u>26,553.61</u>
Excess (Deficit) of Revenues Collected Over (Under)					
Expenditures Paid	(67,083.91)	(67,084.00)	(10,967.81)	0.09	56,116.19
Cash Fund Balance					
Beginning of Year	<u>67,083.91</u>	<u>67,083.91</u>	<u>67,083.91</u>	<u>-</u>	<u>-</u>
Cash Fund Balance					
End of Year	<u>\$ -</u>	<u>\$ (0.09)</u>	<u>\$ 56,116.10</u>	<u>\$ 0.09</u>	<u>\$ 56,116.19</u>

Amounts reported for general fund cash fund balance in the Balance Sheet of Governmental Funds is different because this schedule is prepared on a regulatory basis of accounting. The differences are attributable to:

Amounts Due from Other Governments	49,678.59
Prepaid Insurance	1,389.44
Accounts Payable	(5,513.77)
Accrued Payroll Taxes Payable	<u>(2,174.61)</u>
Cash Fund Balance - General Fund	<u>99,495.75</u>

UNAUDITED

OTHER SUPPLEMENTAL INFORMATION

Town of Fairland, Oklahoma
Schedule of Expenditures of State & Federal Awards
For the Year Ended June 30, 2011

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Program or Award Amount</u>	<u>Revenue Collected</u>	<u>Total Expenditures</u>
State of Oklahoma Programs:				
Passed through the Oklahoma Department of Agriculture Rural Fire Defense Grant		\$4,397.72	\$4,397.72	\$4,397.72
Cherokee Nation		<u> </u>	<u>31,725.56</u>	<u>31,725.56</u>
Total Expenditures of State Awards		<u>\$4,397.72</u>	<u>\$36,123.28</u>	<u>\$36,123.28</u>

**Town of Fairland, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-1 Material Weakness in Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP

Criteria:

The government's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e. maintaining internal books and records, and (2) reporting government-wide and fund financial statements, including related footnotes (i.e. external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot perform any part of management's control activities or be a component of the internal controls over financial reporting.

Condition:

As is the case with many smaller and medium-sized entities, the government has historically relied extensively on its independent external auditors to provide the necessary expertise to assist in the preparation of the financial statements and footnotes as part of its controls over the external financial reporting process. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on its external auditors, who cannot by definition be considered a part of the government's internal controls. This finding was also noted in 2010.

Cause:

The government lacks the necessary knowledge, expertise and education relative to preparing GAAP financial statements. As a result, management has elected to use outside assistance from the external auditors to assist in meeting its responsibilities relative to preparing its annual financial statements.

Effect or Potential Effect:

As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

Recommendation:

The government should consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise, and continuing education to prepare financial statements in accordance with generally accepted account principles without reliance on the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

**Town of Fairland, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-2 Material Adjusting Journal Entries

Criteria:

The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition:

The government's trial balances for the year ended June 30, 2011, required a number of material adjusting entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: adjusting cash accounts, adjusting accounts receivable/accounts payable/payroll taxes payable, recording asset additions, and adjusting note payments. This finding was also noted in 2010.

Cause:

The government's accounting and financial reporting staff lacks the necessary knowledge, expertise, and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

Effect or Potential Effect:

As a result of this condition, without reliance on external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions regarding the trial balances.

Town of Fairland, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-2 Material Adjusting Journal Entries (continued)

Recommendation:

The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

**Town of Fairland, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-3 Compliance with Purchase Order Act

Criteria:

The Oklahoma Purchase Order Act states, unless otherwise provided by ordinance, that towns are required to adhere to the Act when making purchases. This includes having purchase orders approved prior to issuing payment.

Condition:

Purchase orders are not being approved prior to payment of invoices. This finding was also noted in 2010.

Cause:

Purchase orders are placed on the consent agenda for approval the following month after payment is made.

Effect:

An approved purchase order is not required to make a purchase; therefore, the Town is not in compliance with the Oklahoma Purchase Order Act.

Recommendation:

In order to ensure that purchases are initiated with the proper approval, it is recommended that purchase orders be prepared and approved before payment is issued.

**Town of Fairland, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-4 Identifiable Activities

Criteria:

GASBS No. 37, Para. 10, which is effective for audits of financial statements for periods ending on or after June 15, 1999, require activities within the enterprise fund to be presented with different identifiable activities. An identifiable activity has a specific revenue stream and related expenses that are accounted for separately. Different relates to the distinction between types of services or programs provided by activities. In other words, water would have its own revenue stream and related expenses, and the same would be true for the other departments such as sewer and trash.

Condition:

All utility expense activities are lumped together and a breakdown of departmental expenses is difficult if not impossible. This finding was also noted in 2010.

Cause:

A lack of separation of expenses into the various departments within the Public Works Authority.

Effect or Potential Effect:

Comparisons for the various activities within the utility department are not possible.

Recommendation:

To comply with GASBS No. 37, Para. 10, the auditors recommend tracking expenses for the various departments within the Public Works Authority. This may require setting up a new chart of accounts and hiring assistance from an outside source to help with compliance.

**Town of Fairland, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-5 Internal Control over Capital Assets

Criteria:

Internal Controls should be in place over the receipt, disbursement and recording of capital assets. Capital Assets should be inventoried at least annually to prevent or detect material misstatements in the financial statements, including disclosures.

Condition:

Capital assets are not being recorded by the Town. The Town relies on the auditor to record capital assets. This finding was also noted in 2010.

Cause:

The Town relies on the auditor to draft financial statements including the schedule of capital assets in the note disclosures. Although the accounting personnel possess general accounting knowledge, assistance is needed regarding other accounting issues and accounting treatments required specific to a local government environment.

Effect:

Adjustments totaling \$34,727.00 were necessary to record capital assets that had been purchased or donated. In addition disposals of assets totaling \$2,985.00 were necessary to record the loss of a vehicle traded for equipment.

Recommendation:

The Town should consider developing a system to track capital assets including initial cost and sales prices in order to keep accurate records.

**Town of Fairland, Oklahoma
Schedule of Findings and Responses
For the Year Ended June 30, 2011**

FINDINGS - FINANCIAL STATEMENT AUDIT

2011-6 Tracking Water and/or Gas Meter Deposits Payable

Criteria:

Oklahoma Statute 11 O.S., S. 35-107 states that deposits for utility service shall be refunded or credited to the customer upon termination of service or at an earlier date as allowed by the municipality.

Condition:

The Town is unable to bring up an accurate list of current water and/or gas meter deposits due to customers. Also, the water meter refunds are not a whole dollar amount; therefore, a refund was disbursed and/or recorded incorrectly. This finding was also noted in 2010.

Cause:

The Town does not have the appropriate internal controls in place regarding the tracking of current customers and any refunds applicable to them in the event that service was discontinued.

Effect:

Water and/or gas meter deposits payable cannot be accurately identified; therefore, increasing the possibility of misstatements in the financial statements, including disclosures.

Recommendation:

Internal controls should be in place to track all current and incoming customers in order to comply with statute in the event that services are terminated.