

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

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

	Page
<b>INTRODUCTORY SECTION:</b>	
Table of Contents	i
<b>FINANCIAL SECTION:</b>	
Independent Auditor's Report	1-2
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	3-5
Government-Wide Financial Statements:	6
Statement of Net Assets - Cash Basis	7
Statement of Activities - Cash Basis	8
Fund Financial Statements:	9
Balance Sheet - Cash Basis - Governmental Funds	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Cash Basis - Governmental Funds	11
Statement of Net Assets - Cash Basis - Proprietary Fund	12
Statement of Revenues, Expenses and Changes in Net Assets - Cash Basis - Proprietary Fund	13
Notes to Financial Statements	14-19

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

735 West Doolin

Blackwell, OK 74631

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

## Independent Auditor's Report

The Board of Trustees  
Town of Fairmont, 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 Fairmont, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Fairmont, Oklahoma's management. Our responsibility is to express opinions on these financial statements based on our audit.

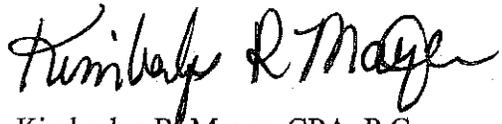
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

As discussed in Note 1 the Town of Fairmont, Oklahoma prepared its financial statements on the 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 - cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fairmont, Oklahoma, as of June 30, 2012, and the respective changes in financial position - cash basis thereof for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 26, 2013 on our consideration of the Town of Fairmont's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to

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

A handwritten signature in black ink, reading "Kimberlye R. Mayer". The signature is written in a cursive style with a large, stylized initial 'K'.

Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
March 26, 2013

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

The Board of Trustees  
Town of Fairmont, Oklahoma

We have audited the financial statements of the Town of Fairmont, Oklahoma as of and for the year ended June 30, 2012, and have issued our report thereon dated March 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements were prepared on the cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Fairmont, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However

providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that were required to be reported under *Government Auditing Standards*.

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

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

A handwritten signature in black ink, appearing to read "Kimberlye R. Mayer". The signature is fluid and cursive, with the first name being the most prominent.

Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
March 26, 2013

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

**Material Weakness Communicated In Prior Year:**

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

**Criteria:**

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

**Condition:**

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

**Cause:**

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

**Effect or Potential Effect:**

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

**Recommendation:**

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

**Board's Response:**

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

FUND FINANCIAL STATEMENTS

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

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Cash and cash equivalents	\$ 79,701	\$ 10,373	\$ 90,074
Total Assets	79,701	10,373	90,074
Net Assets:			
Unrestricted	79,701	10,373	90,074
Total Net Assets	\$ 79,701	\$ 10,373	\$ 90,074

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



GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	<u>General Fund</u>
Assets:	
Cash and cash equivalents	\$ 79,701
Total Assets	<u>79,701</u>
Fund balances:	
Nonspendable	
Restricted	
Committed	
Assigned	
Unassigned	79,701
Total Fund Balances	<u>\$ 79,701</u>

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

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

	<u>General Fund</u>
<b>REVENUES:</b>	
Taxes	\$ 28,906
Membership dues	3,295
Investment income	36
Donations and grants	9,313
Miscellaneous	270
Total Revenues	<u>41,820</u>
 <b>EXPENDITURES:</b>	
General Government	20,042
Fire Department	6,707
Street Department	3,052
Total Expenditures	<u>29,801</u>
Excess (deficiencies) of revenues over expenditures	12,019
 <b>OTHER FINANCING SOURCES (USES):</b>	
Transfers in (out)	<u>          </u>
Net changes in fund balances	12,019
Fund balances, beginning of year	<u>67,682</u>
Fund balances, end of year	<u>\$ 79,701</u>

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

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

	<u>Public Works Authority</u> <u>Enterprise Fund</u>
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 10,373
Total Current Assets	<u>10,373</u>
Net Assets:	
Unrestricted	<u>10,373</u>
Total Net Assets	<u>\$ 10,373</u>

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

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

	<u>Public Works Authority</u> <u>Enterprise Fund</u>
Operating Revenues:	
Charges for services:	
Water	\$ 20,427
Sewer	10,670
Sanitation	12,527
Other income	2,426
Total Operating Revenues	<u>46,050</u>
 Operating Expenses:	
Water Department	26,151
Sewer Department	13,009
Sanitation Department	10,157
Total Operating Costs	<u>49,317</u>
 Operating income (loss)	 (3,267)
 Non-Operating Revenues (Expenses)	
Grants	
Total Non-Operating Revenues (Expenses)	<u>          </u>
 Changes in Net Assets	 (3,267)
 Transfers in	
 Net Assets, beginning of year	 <u>13,640</u>
 Net Assets, end of year	 <u>\$ 10,373</u>

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Reporting Entity

The Town of Fairmont, Oklahoma (Town) operates under the Town Board of Trustees form of government. The Town's financial reporting entity is composed of the following:

Primary Government: Town of Fairmont, Oklahoma  
Blended Component Unit: Town of Fairmont, Public Works Authority

Blended Component Unit

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

Basis of Presentation

Government-Wide Financial Statements:

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

Fund Financial Statements:

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

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

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

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

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

Governmental Funds:

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

Proprietary Funds

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

Basis of Accounting

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

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

Budget Policy and Practice

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

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

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

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

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

Budget and Budgetary Accounting

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

Cash and Cash Equivalents

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

NOTE 2 – PROPERTY AND EQUIPMENT:

Capital assets arising from cash transactions are accounted for as capital outlay expenditures in the governmental funds and the proprietary fund operations upon acquisition.

NOTE 3 – CASH AND DEPOSITS:

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

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

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

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

NOTE 3 - CASH AND DEPOSITS (continued):

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

	Bank Balance	Category			Carrying Amount
		1	2	3	
Bank accounts	\$ 112,613	\$ 112,613	\$	\$	\$ 90,074

NOTE 4 – EQUITY CLASSIFICATION:

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

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

Restricted net assets: Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

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

Fund Balance Reporting

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below.

1. *Nonspendable*, such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned),

2. *Restricted* fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

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

NOTE 4 – EQUITY CLASSIFICATION (continued):

Fund Balance Reporting (continued)

3. *Committed*, fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's trustees (the Town's highest level of decision making authority),

4. *Assigned* fund balance classification is intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

5. *Unassigned* fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

NOTE 5 – PENSION PLANS:

All firemen of the Town of Fairmont participate in the Oklahoma Firefighters Pension and retirement System, a multiple public employee retirement system. All firemen of the Town of Fairmont are eligible to participate in the System. For the year ended June 30, 2012, the Town of Fairmont contributed \$660 to this retirement plan.

NOTE 6 – RISK MANAGEMENT:

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

NOTE 7 – ESTIMATES:

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

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

NOTE 8 – EVALUATION OF SUBSEQUENT EVENTS:

The Town has evaluated subsequent events through March 26, 2013, the date which the financial statements were available to be issued.

NOTE 9 – COMMITMENTS:

EPA Consent Order

On December 20, 2004 the Town entered into a Consent Order with the Water Quality Division of the Department of Environmental Quality. In the Consent Order the Town agreed to perform certain tasks according to a specified schedule to eliminate effluent permit violations from the Town's wastewater treatment facility to bring it into compliance with Oklahoma statutes and regulations. The Town did not comply with the requirements of the Consent Order and was assessed a penalty of \$12,500: \$10,000 will be deferred pending full compliance with the terms and conditions of the Consent Order and \$2,500 is to be paid in cash. The Town agreed to pursue all possible funding options for the projects required to bring its wastewater treatment system into compliance with federal and state regulations.