TOWN OF FAIRFAX, OKLAHOMA

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

RALPH OSBORN
CERTIFIED PUBLIC ACCOUNTANT
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500 SOUTH CHESTNUT
BRISTOW, OKLAHOMA 74010-1015

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the Board of Trustees
Town of Fairfax
Fairfax, Oklahoma

I 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 Fairfax, Oklahoma as of and for the year ended June 30, 2011, which collectively comprise the Town of Fairfax, Oklahoma's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Town of Fairfax, Oklahoma's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinions.

As discussed in Note A, the Town of Fairfax, Oklahoma prepares its financial statements on a modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position-modified cash basis of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Town of Fairfax, Oklahoma as of June 30, 2011, and the respective changes in financial position-modified cash basis and cash flows where appropriate, thereof, for the year ended, in conformity with the basis of accounting described in Note A.

The Town of Fairfax, Oklahoma has not presented Management's Discussion and Analysis or the general fund budgetary comparison that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, I have also issued my report dated July 11, 2012, on my consideration of Town of Fairfax, Oklahoma's internal control over financial reporting and my 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 my 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 my audit.

My audit was conducted for the purpose of forming opinions on the basic financial statements that collectively comprise Town of Fairfax, Oklahoma's financial statements of the Town taken as a whole. The combining financial statements presented for purposes of additional analysis are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
July 11, 2012

TOWN OF FAIRFAX, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2011

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 77,505	$ 105,239	$ 182,744
Investments	55,488	152,993	208,481
Due from other funds	31,799	27	31,826
Restricted assets:			
Restricted for debt service:			
Cash and cash equivalents	-	38,105	38,105
Restricted for utility deposits:			
Cash and cash equivalents	-	7,847	7,847
Investments	-	102,200	102,200
Total current assets	164,792	406,411	571,203
Non-current assets:			
Capital assets			
Land	110,000	-	110,000
Other capital assets net of accumulated depreciation	845,698	3,396,974	4,242,672
Total non-current assets	955,698	3,396,974	4,352,672
Total assets	1,120,490	3,803,385	4,923,875
LIABILITIES			
Current liabilities:			
Due to other funds	2,001	29,825	31,826
Utility deposits	-	118,072	118,072
Notes, payable, current portion	-	84,978	84,978
Total current liabilities	2,001	232,875	234,876
Non-current liabilities:			
Notes, payable, non-current portion	-	1,737,290	1,737,290
Total non-current liabilities	-	1,737,290	1,737,290
Total liabilities	2,001	1,970,165	1,972,166
NET ASSETS			
Investments in capital assets, net of related debt	955,698	1,574,706	2,530,404
Restricted for debt service	-	38,105	38,105
Restricted for utility deposits	-	110,047	110,047
Assigned	153,217	110,362	263,579
Unassigned	9,574	-	9,574
Total net assets	$1,118,489	$1,833,220	$ 2,951,709

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

TOWN OF FAIRFAX, OKLAHOMA
STATEMENT OF ACTIVITIES
MODIFIED CASH BASIS
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenue			
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expenses) Revenue
Function/Programs					
Governmental activities					
General government	$ 126,043	$ 11,683	$ 54,256	$ -	$ (60,104)
Public safety	311,339	30,454	5,233	-	(275,652)
Street	54,425	-	14,848	-	(39,577)
Council	6,714	-	-	-	(6,714)
Culture and education	48,292	-	8,734	-	(39,558)
Parks and recreation	3,728	2,071	-	-	(1,657)
Cemetery	15,091	18,138	-	-	3,047
Clerk	5,770	-	-	-	(5,770)
Health Needs	179,866	-	-	-	(179,866)
Total governmental activities	751,268	62,346	83,071	-	(605,851)
Business-type activities					
General	205,980	67,126	-	-	(138,854)
Sewer	100,233	138,765	-	-	38,532
Sanitation	110,308	122,435	-	-	12,127
Water	195,258	338,483	-	-	143,225
Natural gas	408,551	473,582	-	-	65,031
Total business-type activities	1,020,330	1,140,391	-	-	120,061
Total primary government	$1,771,598	$1,202,737	$ 83,071	$ -	$ (485,790)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense) revenue	$ (605,851)	$ 120,061	$ (485,790)
General revenues			
Taxes			
Sales tax	198,765	-	198,765
Franchise	41,674	-	41,674
Other	19,372	831	20,203
Interest	5,327	11,167	16,494
Transfers	184,075	(184,075)	-
Total general revenue and transfers	449,213	(172,077)	277,136
Change in net assets	(156,638)	(52,016)	(208,654)
Net assets - beginning	1,275,127	1,885,236	3,160,363
Net assets - ending	$1,118,489	$ 1,833,220	$ 2,951,709

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

TOWN OF FAIRFAX, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2011

	General Fund	Cemetery Care	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 8,027	$ 24,749	$ 44,729	$ 77,505
Investments	-	-	55,488	55,488
Due from other funds	1,774	29,825	200	31,799
TOTAL ASSETS	$ 9,801	$ 54,574	$ 100,417	$ 164,792
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	$ 227	$ 1,774	$ -	$ 2,001
TOTAL LIABILITIES	227	1,774	-	2,001
FUND BALANCES				
Assigned	-	52,800	100,417	153,217
Unassigned	9,574	-	-	9,574
TOTAL FUND BALANCES	9,574	52,800	100,417	162,791
TOTAL LIABILITIES AND FUND BALANCES	$ 9,801	$ 54,574	$ 100,417	$ 164,792

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

TOWN OF FAIRFAX, OKLAHOMA
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS
WITH THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Total fund balance		$ 162,791
Amounts reported 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.		
Land	110,000	
Capital assets	1,613,734	
Accumulated depreciation	(768,036)	955,698
Total net assets		$1,118,489

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

TOWN OF FAIRFAX, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	General Fund	Cemetery Care	Other Governmental Funds	Total Governmental Funds
Revenue				
Sales tax	$ 165,638	$ -	$ 33,127	$ 198,765
Franchise tax	41,674	-	-	41,674
Alcoholic beverage tax	33,594	-	-	33,594
Cigarette tax	2,933	-	-	2,933
Motor vehicle tax	-	-	11,123	11,123
Gasoline excise tax	-	-	3,725	3,725
Swimming pool	2,071	-	-	2,071
Cemetery	13,594	4,544	-	18,138
License and permits	4,583	-	-	4,583
Intergovernmental	4,104	-	26,757	30,861
Fines and forfeits	973	-	25,881	26,854
Donations	-	-	835	835
Fire revenue	-	-	3,600	3,600
Rent	7,100	-	-	7,100
Other	6,841	-	12,531	19,372
Interest	736	175	4,416	5,327
Total revenue	283,841	4,719	121,995	410,555
Expenditures				
Current				
General government	103,519	-	13,625	117,144
Public safety	289,225	-	17,625	306,850
Street	26,565	-	5,430	31,995
Culture and education	29,709	-	15,699	45,408
Clerk	5,770	-	-	5,770
Health Needs	21,038	-	97,653	118,691
Council	6,714	-	-	6,714
Parks and recreation	2,000	-	-	2,000
Cemetery	8,619	2,401	-	11,020
Total expenditures	493,159	2,401	150,032	645,592
Excess (deficiency) of revenue over expenditures	(209,318)	2,318	(28,037)	(235,037)
Other financing sources (uses)				
Transfer from other funds	206,990	-	10,875	217,865
Transfer to other funds	(4,000)	-	(29,790)	(33,790)
Total other financing sources (uses)	202,990	-	(18,915)	184,075
Net change in fund balance	(6,328)	2,318	(46,952)	(50,962)
Fund balances, beginning	15,902	50,482	147,369	213,753
Fund balances, ending	$ 9,574	$ 52,800	$ 100,417	$ 162,791

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

TOWN OF FAIRFAX, OKLAHOMA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Net changes in fund balances - total governmental funds		$ (50,962)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the combined statement of net assets and allocated over their estimated useful lives as annual depreciation in the statement of activities. This is the amount by which capital outlay exceeds depreciation outlay in the period.		
Loss on sale of hospital	(57,017)	
Depreciation expense	(55,365)	
Capital outlay	6,706	(105,676)
Change in net assets		$(156,638)

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

TOWN OF FAIRFAX, OKLAHOMA
STATEMENT OF FUND NET ASSETS - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2011

ASSETS	
Current assets:	
Cash and cash equivalents	$ 105,239
Investments	152,993
Due from other funds	27
Restricted assets:	
Restricted for debt service:	
Cash and cash equivalents	38,105
Restricted for utility deposits:	
Cash and cash equivalent	7,847
Investments	102,200
Total current assets	406,411
Non-current assets	
Capital assets:	
Other capital assets, net of accumulated depreciation	3,396,974
Total non-current assets	3,396,974
Total assets	3,803,385
LIABILITIES	
Current liabilities:	
Due to other funds	29,825
Utility deposits	118,072
Notes payable, current portion	84,978
Total current liabilities	232,875
Non-current liabilities:	
Notes payable, non-current portion	1,737,290
Total non-current liabilities	1,737,290
Total liabilities	1,970,165
NET ASSETS	
Invested in capital assets, net of related debt	1,574,706
Restricted for debt service	38,105
Restricted for utility deposits	110,047
Assigned	110,362
Net assets of business-type activities	$ 1,833,220

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

TOWN OF FAIRFAX, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
MODIFIED CASH BASIS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

OPERATING REVENUES	
Charges for services:	
Natural gas	$ 454,813
Water charges	338,483
Wastewater charges	138,765
Sanitation charges	122,435
Fees	43,850
Sales tax	18,769
Penalty	23,276
Other	831
Total operating revenues	1,141,222
OPERATING EXPENSES	
General	205,980
Water department	96,860
Natural gas	334,134
Sewer	55,646
Sanitation department	110,308
Depreciation	136,651
Total operating expenses	939,579
Operating income (loss)	201,643
NON-OPERATING REVENUE (EXPENSES)	
Interest income	11,167
Interest on notes payable	(80,751)
Total non-operating revenue(expenses)	(69,584)
Income before contributions and transfers	132,059
Transfer to other funds	(184,075)
Change in net assets	(52,016)
Total net assets, beginning - restated	1,885,236
Total net assets, ending	$ 1,833,220

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

TOWN OF FAIRFAX, OKLAHOMA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND TYPE
FOR THE YEAR ENDED JUNE 30, 2011

Cash flows from operating activities	
Cash received from customers	$ 1,144,363
Cash payments to employees	(205,970)
Cash payments to suppliers for goods and services	(596,958)
Net cash provided (used) by operating activities	341,435
Cash flows from non-capital financing activities	
Transfer out	(184,075)
Net cash provided by non-capital financing activities	(184,075)
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(11,400)
Principal paid on notes payable	(82,646)
Interest paid on notes payable and fiscal fees	(80,751)
Net cash used for capital and related financing activities	(174,797)
Cash flows from investing activities	
Interest income	11,167
Transfer to investments	(6,996)
Net cash provided by investing activities	4,171
Net decrease in cash and cash equivalents	(13,266)
Cash and cash equivalents, beginning	164,457
Cash and cash equivalents, ending	$ 151,191

Reconciliation of operating income (loss) to net cash provided by(used) by operating activities	
Operating income (loss)	$ 201,643
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	136,651
Changes in assets and liabilities:	
Increase in utility deposits	3,141
Net cash provided by operating activities	$ 341,435

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Fairfax, Oklahoma, was incorporated under the provisions of the laws of the State of Oklahoma. The Town operates under a Board of Trustees form of government and provides the following services: general government, public safety, public works, parks and recreation. The basic financial statements include the departments, agencies, and other organizational units over which the Board of Trustees exercise oversight responsibility. In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 and No. 39. Based on the criteria the Fairfax Public Works Authority (the Authority)is the only component unit. The definition of the financial reporting entity is primarily based on the concept of financial accountability. The financial reporting entity consists of the primary government (the Town), and activities for which the primary government is financially accountable, and the activities of the Authority. Financial accountability exists if a primary government appoints a voting majority of an organizations governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide a specific financial benefit to, or impose specific financial burdens on, the primary government. Based upon the application of these criteria, there are no other entities to include in the Town's financial statements.

The financial statements do not include the operation of Fairfax Memorial Hospital. The Town owns the hospital and allocates a portion of its sales tax revenue to the Hospital Special Revenue fund which may be used to pay certain expenditures of the Hospital. The Town Board of Trustees appoints a Board of Control for the Hospital. The hospital is leased to Community Partners LLC. Revenues, assets, and liabilities of Fairfax Memorial Hospital are included in the consolidated financial statements of Community Partners LLC. Town financial statements include only the Hospital Special Revenue fund. Based on this, the Hospital is not a component unit of the Town.

Government-Wide and Fund Financial Statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the Town as a whole excluding fiduciary activities such as employee pension plans. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and Town general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A functional program is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include (1) charges for services which report fees, fines and forfeitures, and other charges to users of the Town's services;(2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these programs uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements

Fund financial statements of the Town are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "how" 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 the Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, as defined in item B below.

In the fund financial statements, the "current financial resources" measurement focus or the "economic resources" measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

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 operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or non-current, financial, or non-financial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

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 a modified cash basis of accounting. This basis recognizes assets, liabilities, net assets/fund equity, revenues, and expenditures/expenses when they result from cash transactions with a provision for depreciation in the government-wide statements and proprietary fund statements. 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 modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and 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.

If the Town utilized the basis of accounting recognized as generally accepted, the fund financial statements for governmental funds would use the modified accrual basis of accounting, while the fund financial statements of proprietary fund types would use the accrual basis of accounting. All government-wide financials would be presented on the accrual basis of accounting.

FUND TYPES AND MAJOR FUNDS

The Town reports the following major governmental funds:

General Fund - The general fund reports as the primary fund of the Town. This fund is used to account for all financial resources not reported in other funds.

Cemetery Care - Accounts for a portion of cemetery revenue and expense.

Proprietary Funds - The Town reports the following major enterprise funds:

Fairfax Public Works - The Authority provides certain utility services for the Town.

Budgetary Accounting and Control

The Mayor submits an annual budget to the Board of Trustees in accordance with the Oklahoma Municipal Budget Act. The budget is presented to the Board of Trustees for review, and public hearings are held to address priorities and allocation of resources. In June, the Board of Trustees adopts the annual fiscal year budgets for the Town operating funds. Once approved, the Board of Trustees may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations. Public trusts submit budget and other planning documents to their respective governing bodies.

Each fund's appropriated budget is prepared on a detailed line item basis. Revenues are budgeted by sources. Expenditures are budgeted by department and class as follows: Personal services, other services and charges, supplies, capital outlay, transfers, and debt service. Budget revisions at this level are subject to final review by the Board of Trustees. The legal level of control is by department within a fund. Expenditures may not exceed appropriations at this level. Within these control levels, management may transfer appropriations without Board approval.

The budgets for the governmental funds and proprietary fund operations are prepared on the cash basis. Revenues are budgeted in the year receipt is expected; and expenditures, which include encumbrances, are budgeted in the year that the applicable purchase orders are expected to be paid. The budget and actual financial statements are reported on this basis. Unencumbered appropriations for annually budgeted funds lapse at fiscal year-end.

Investments

The Town follows Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires marketable securities to be carried at fair value. The Town considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. The investments reported in the financial statements consist of Certificates of Deposits.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriations, is employed in the governmental funds. Encumbrances outstanding at year end are cancelled under the modified cash basis. The encumbrance is added to the subsequent year expenses when paid.

Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as an expenditure at the time individual inventory items are used. Proprietary funds and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis. The Town has not maintained inventory records, however, the value of inventory on hand at June 30, 2011 is not believed to be material.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

Capital Assets, Depreciation, and Amortization

The Town's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost or at estimated historical cost for those items not previously reported and comprehensively reported in the government-wide financial statements. The Town maintains infrastructure assets records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The Town generally capitalizes assets with cost of $2,500 or more as purchase and construction outlay occur. The cost of normal maintenance and repairs that do not add to the assets value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are moved from the respective accounts, and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follow:

Buildings	5-60
Improvements, other than buildings	2-50
Mobile equipment	3-40
Furniture , machinery, and equipment	3-30
Utility system	5-60

Compensated Absences

Full-time, permanent employees are granted personal leave in varying amounts to specified maximums depending on tenure with the Town. The Town does not record a liability for accrued compensated absences. The amount paid for compensated absences is expensed as paid.

Reserves and Designations

Reserves represent those portions of fund balance not available for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources.

Use of Estimates

The preparation of financial statements in conformity with the modified cash basis requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B - CASH AND INVESTMENTS

Custodial Credit Risk

Custodial credit risk is the risk that in the event of failure of counterparty, the Town will not be able to recover the value of its deposits or investments. Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Investment securities are exposed to custodial credit risk if they are uninsured, are not registered in the name of the Town, and are held by counterparty or the counterparty's trust department but not in the name of the Town. The Town's policy requires that all deposits and investments in excess of amounts covered by federal deposit insurance be fully collateralized by the entity holding the deposits or investments. As of June 30, 2011, all of the Town's deposits and investments were either covered by federal deposit insurance or were fully collateralized.

Deposits

The Town had deposits at financial institutions with a carrying amount of approximately $539,377 at June 30, 2011. The bank balance of the deposits at June 30, 2011 was approximately $560,790.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2011.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Board of Directors monitor's the investment performance on an ongoing basis to limit the Town's interest rate risk. As of June 30, 2011, the Town's deposits consisted of demand deposits and certificates of deposit with a maturity of 12 months or less.

NOTE C - INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2011 are as follows:

Amount	Due To Other Funds	Due From Other Funds
$ 29,825	Cemetery Care	Public Works Authority
27	Public Works Authority	General Fund
200	Hospital Special	General Fund
1,774	General Fund	Cemetery Care
$ 31,826		

The governmental financial statements report all interfund receivables. The governmental fund interfund receivables have been eliminated in preparation of the government-wide financial statements.

NOTE D - RESTRICTED CASH

The Authority has reported the following as restricted cash:

Utility Deposit reserve	$ 110,047
Debt reserve	$ 38,105
Total	$ 148,152

The debt reserve is held for use in retiring the outstanding notes payable. The Rural Development loan reported in Note F requires the Authority maintain a reserve equal to the total payments due during a year. The required reserve is $101,880.

NOTE E - CAPITAL ASSETS

Changes in capital assets.

The following table provides a summary of changes in capital assets:

	CAPITAL ASSETS, DEPRECIATED				
PRIMARY GOVERNMENT	Buildings	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	Capital Assets Not Depreciated Land
Governmental activities					
Balance, June 30, 2010	$ 579,953	$ 502,695	$ 621,635	$ 1,704,283	$ 110,000
Increases	-	-	6,706	6,706	-
Decreases	(3,800)	-	(93,455)	(97,255)	-
Balance, June 30, 2011	576,153	502,695	534,886	1,613,734	110,000
Accumulated Depreciation					
Balance, June 30, 2010	368,171	75,392	309,346	752,909	
Increase	12,497	12,949	29,919	55,365	
Decreases	(1,520)	-	(38,718)	(40,238)	
Balance, June 30, 2011	379,148	88,341	300,547	768,036	
Governmental activities Capital Assets, Net	$ 197,005	$ 414,354	$ 234,339	$ 845,698	$ 110,000
Business-type activities					
Balance, June 30, 2010	$ -	$ 5,125,805	$ 76,840	$ 5,202,645	$ -
Increases	-	-	11,400	11,400	-
Decreases	-	-	-	-	-
Balance, June 30, 2011	-	5,125,805	88,240	5,214,045	-
Accumulated Depreciation					
Balance, June 30, 2010	-	1,660,435	19,986	1,680,421	
Increase	-	130,571	6,080	136,651	
Decreases	-	-	-	-	
Balance, June 30, 2011	-	1,791,006	26,066	1,817,072	
Business-type Activities Capital Assets, Net	$ -	$ 3,334,799	$ 62,174	$ 3,396,973	$ -
PRIMARY GOVERNMENT Capital Assets, Net	$ 197,005	$ 3,749,153	$ 296,513	$ 4,242,671	$ 110,000

DEPRECIATION EXPENSE

Depreciation expense was charged to functions of the primary government as follows:

GOVERNMENT ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
General Government	$ 8,899	Water	$ 58,022
Public Safety	11,195	Sewer	44,587
Street	22,430	Natural gas	34,042
Culture and education	2,884		
Parks and recreation	1,728		
Hospital	4,158		
Cemetery	4,071		

NOTE F - PROPRIETARY FUND NOTES PAYABLE

The Authority has incurred indebtedness for the expansion of system facilities and the acquisition of fixed assets for the Town and Authority. The following is a summary of note payable transactions for the year ended June 30, 2011.

	Payable at July 1, 2010	Additions/ Retirements	Balance at June 30, 2011
Rural Development	$ 1,529,108	$ (33,758)	$ 1,495,350
Water Resources Board	375,806	(48,888)	326,918
	$ 1,904,914	$ (82,646)	$ 1,822,268

A brief description of the outstanding notes payable at June 30, 2011 is set forth below:

	Outstanding
Rural Development loan dated December 1995, original loan amount of $1,870,000, interest rate of 4.5%, term of 40 years, monthly installment of $8,490 until December 2035	$ 1,495,350
Oklahoma Water Resources Board loan dated March 19, 1998, original loan amount of $882,000, interest rate of 3.59%, final maturity March 15, 2017	326,918
	$ 1,822,268

The annual debt service requirement over the next five years, including principal and interest, is as follows:

Year Ending June 30	Principal	Interest	Debt Service
2012	$ 84,978	$ 66,671	$ 151,649
2013	88,730	73,404	162,134
2014	92,038	70,073	162,111
2015	95,475	66,613	162,088
2016	99,044	63,027	162,071
2017-2021	300,434	269,010	569,444
2022-2026	301,740	207,660	509,400
2027-2031	377,716	131,684	509,400
2032-2035	382,113	42,387	424,500
Total	$ 1,822,268	$ 990,529	$ 2,812,797

NOTE G - DEBT SERVICE COVERAGE

The notes payable require the Authority maintain a schedule of rates or charges for services sufficient to provide funds which together with other revenues pledged will provide net revenues available for debt service equal to at least 125% of the annual debt services requirement. The ratio for the current year is calculated as follows:

Operating income	$ 201,643
Depreciation	136,651
Net revenue	$ 338,294
Annual debt service	$ 163,974
Ratio	2.06 to 1

NOTE H - COMPENSATED ABSENCES

The Town and Authority have not reported an amount for accrued compensated absences. Under the modified cash basis of accounting, payments for vacation and sick leave are expensed as paid.

NOTE I- PENSION OBLIGATIONS

The Town participates in two pension plans. The Oklahoma Firefighters Pension and Retirement Systems and Oklahoma Public Employees Retirement System (the System).

Oklahoma Firefighter's Pension and Retirement System

Town of Fairfax participates in this statewide, cost-sharing, multiple-employer benefit plan on behalf of firefighters. The system is administered by an agency of the State of Oklahoma and funded by contributions from participants, employers, insurance premium taxes, and state appropriations, as necessary. The following is a summary of eligibility factors, contribution methods, and benefit provisions.

	Oklahoma Firefighter's Pension And Retirement System
Eligibility to Participate	All full-time or voluntary Firefighters of a participating Municipality hired before age 45
Authority establishing contribution obligations and benefit provisions	State Statute
Plan members' contribution rate	8% of covered payroll
City's contribution rate	13% of covered payroll/$60 per volunteer
Period required to vest	10 years
Benefits and eligibility for distribution (full time)	20 years credited service, 2 ½% of funal Average salary multiplied by the years of Credited service with a maximum of 30 yrs Considered; If vested at or after age 50 Or after 10 but before 20 years of Credited service with reduced benefits.

Benefits and eligibility for distribution (full time)		20 years credited service, 2 ½% of funal Average salary multiplied by the years of Credited service with a maximum of 30 yrs Considered; If vested at or after age 50 Or after 10 but before 20 years of Credited service with reduced benefits.
Benefits and eligibility for distribution (Volunteer)		20 years credited service equal to $5.46 per month per year of service With a maximum of 30 Years considered
Deferred retirement option		Yes, 20 years credited service with Continued service for 30 or more years
Provisions for:		
Cost of living adjustments (normal retirement)	Yes	Yes, if vested by 5/83
Death (duty, non-duty, post-retirement)	Yes	Yes
Disability	Yes	Yes
Cost of living allowances	Yes	Yes

Contributions required by State Statue:

Fiscal Year End	Oklahoma Firefighter's Pension And Retirement System Required Contribution	Percentage Contributed
June 30, 2011	$ 1,260	100%
June 30, 2010	1,020	100%
Jun3 30, 2009	1,080	100%

Plan Description. The Town contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Section 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation which is performed to determine the adequacy of contribution rates. Town employees are required to contribute 3.5% of earned compensation. The Town contributes 12.5% of earned compensation. The Town's contributions to the Plan for the years ending June 30, 2011, 2010 and 2009 were $24,561, $24,561 and $16,148, respectively, equal to the required contributions for each year.

NOTE J - 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; and natural disasters. The Town carries commercial insurance for risk of loss, including workers' compensation. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE K - FEDERAL AND STATE GRANTS

In the normal course of operations, the Town receives grant funds from various federal and state agencies. The grant programs are subject to audit by agents of the granting authorities the purpose of which is to ensure compliance with conditions precedent to the granting of the funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

NOTE L - HOSPITAL DISPOSAL

The Town held an election in the prior year and voted to allow a separate company to take over operation and maintenance of the hospital. The Town transferred ownership of the hospital building and equipment to HMC/CAH Consolidated, Inc. The Town was not compensated for the transfer and does not expect to be compensated in the future. The vote also changed the sales tax designation from hospital operation and maintenance to "Health Needs", which will be used to provide ambulance services for the town through a fee for service contract with an ambulance service company.

TOWN OF FAIRFAX, OKLAHOMA
COMBINING BALANCE SHEET - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2011

	Grant Fund	Health Needs Sales Tax	Street And Alley	Library	Court	Volunteer Fire	Total Nonmajor Funds
ASSETS							
Cash and cash equivalents	$ 3,687	$ 10,224	$ 25,059	$ 4,123	$ 314	$ 1,322	$ 44,729
Investments	-	40,000	-	15,488	-	-	55,488
Due from other funds	-	200	-	-	-	-	200
TOTAL ASSETS	$ 3,687	$ 50,424	$ 25,059	$ 19,611	$ 314	$ 1,322	$100,417
LIABILITIES							
Due to others	$ -	$ -	$ -	$ -	$ -	$ -	$ -
TOTAL LIABILITIES FUND BALANCES	-	-	-	-	-	-	-
Unreserved, reported in nonmajor special revenue funds	3,687	50,424	25,059	19,611	314	1,322	100,417
TOTAL LIABILITIES AND FUND BALANCE	$ 3,687	$ 50,424	$ 25,059	$ 19,611	$ 314	$ 1,322	$100,417

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

TOWN OF FAIRFAX, OKLAHOMA
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Grant Fund	Health Needs Sales Tax	Street And Alley	Library	Court	Volunteer Fire	Total Non-major Funds
REVENUES							
Sales tax	$ -	$ 33,127	$ -	$ -	$ -	$ -	$ 33,127
Motor vehicle tax	-	-	11,123	-	-	-	11,123
Gasoline excise tax	-	-	3,725	-	-	-	3,725
Fines and forfeits	-	-	-	-	25,881	-	25,881
Intergovernmental	13,625	-	-	8,734	-	4,398	26,757
Donations	-	-	-	835	-	-	835
Fire revenue	-	-	-	-	-	3,600	3,600
Other	10,550	1,325	-	656	-	-	12,531
Interest	-	1,923	2,255	238	-	-	4,416
TOTAL REVENUES	24,175	36,375	17,103	10,463	25,881	7,998	121,995
EXPENDITURES							
Current							
General	13,625	-	-	-	-	-	13,625
Hospital	-	97,653	-	-	-	-	97,653
Culture and education	-	-	-	15,699	-	-	15,699
Street	-	-	5,430	-	-	-	5,430
Public safety	-	-	-	-	2,708	14,917	17,625
TOTAL EXPENDITURES	13,625	97,653	5,430	15,699	2,708	14,917	150,032
Excess of revenues over (under) expenditures	10,550	(61,278)	11,673	(5,236)	23,173	(6,919)	(28,037)
Other financing sources(uses)							
Transfers from other funds	-	-	-	4,000	-	6,875	10,875
Transfer to other funds	(6,875)	-	-	-	(22,915)	-	(29,790)
Net other financing sources(uses)	(6,875)	-	-	4,000	(22,915)	6,875	(18,915)
Net change in fund balance	3,675	(61,278)	11,673	(1,236)	258	(44)	(46,952)
Fund balances, beginning	12	111,702	13,386	20,847	56	1,366	147,369
Fund balances - ending	$ 3,687	$ 50,424	$ 25,059	$ 19,611	$ 314	$ 1,322	$ 100,417

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

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 Honorable Mayor and Members of the Board of Trustees
Town of Fairfax
Fairfax, Oklahoma

I have audited the accompanying financial statements-modified cash basis, of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Town of Fairfax, Oklahoma, as of and for the year ended June 30,2011, which collectively comprise the Town of Fairfax, Oklahoma's basic financial statements, and have issued my report thereon dated July 11, 2012 which did not include Management's Discussion and Analysis or budgetary comparison schedules. I conducted my 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 my audit, I considered Town of Paden, Oklahoma's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Paden, Oklahoma's internal control over financial reporting. Accordingly, I do not express an opinion of the effectiveness of Town of Paden, 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 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Fairfax, Oklahoma's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Ralph Osborn
Certified Public Accountant
Bristow, Oklahoma
July 11, 2012