

TOWN OF FAIRFAX, OKLAHOMA  
ANNUAL FINANCIAL REPORT  
JUNE 30, 2013

RALPH OSBORN  
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## 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Fairfax, Oklahoma, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Fairfax's basic financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on our audit. I conducted my audit in accordance with the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

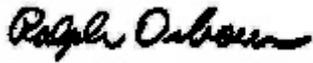
### Opinion

In my 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 Town of Fairfax as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with the modified cash basis of accounting.

Other Matters

Town of Fairfax has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statement.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 7, 2013, on my consideration of Town of Fairfax'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 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 my audit.



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
October 7, 2013

TOWN OF FAIRFAX, OKLAHOMA  
STATEMENT OF NET ASSETS  
MODIFIED CASH BASIS  
JUNE 30, 2013

	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 65,996	\$ 79,676	\$ 145,672
Investments	11,415	152,188	163,603
Due from other funds	31,599	27	31,626
Restricted assets:			
Restricted for debt service:			
Cash and cash equivalents	-	249,967	249,967
Restricted for utility deposits:			
Cash and cash equivalents	-	1,917	1,917
Investments	-	106,800	106,800
Total current assets	<u>109,010</u>	<u>590,575</u>	<u>699,585</u>
Non-current assets:			
Capital assets			
Land	110,000	-	110,000
Other capital assets net of accumulated depreciation	<u>760,472</u>	<u>3,232,436</u>	<u>3,992,908</u>
Total non-current assets	<u>870,472</u>	<u>3,232,436</u>	<u>4,102,908</u>
<b>Total assets</b>	<u><b>979,482</b></u>	<u><b>3,823,011</b></u>	<u><b>4,802,493</b></u>
<b>LIABILITIES</b>			
Current liabilities:			
Due to other funds	1,801	29,825	31,626
Utility deposits	-	116,690	116,690
Notes, payable, current portion	-	100,000	100,000
Total current liabilities	<u>1,801</u>	<u>246,515</u>	<u>248,316</u>
Non-current liabilities:			
Notes, payable, non-current portion	-	1,695,000	1,695,000
Total non-current liabilities	<u>-</u>	<u>1,695,000</u>	<u>1,695,000</u>
<b>Total liabilities</b>	<u><b>1,801</b></u>	<u><b>1,941,515</b></u>	<u><b>1,943,316</b></u>
<b>NET ASSETS</b>			
Investments in capital assets, net of related debt	870,472	1,437,463	2,307,935
Restricted for debt service	-	249,967	249,967
Restricted for utility deposits	-	108,717	108,717
Assigned	101,715	85,349	187,064
Unassigned	<u>5,494</u>	<u>-</u>	<u>5,494</u>
<b>Total net assets</b>	<u><b>\$ 977,681</b></u>	<u><b>\$1,881,496</b></u>	<u><b>\$ 2,859,177</b></u>

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, 2013

Function/Programs	Program Revenue				Net (Expenses) Revenue
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
General government	\$ 205,078	\$ 10,653	\$ 109,439	\$ -	\$ (84,986)
Public safety	331,239	27,361	-	-	(303,878)
Street	52,450	-	12,470	-	(39,980)
Council	6,844	-	-	-	(6,844)
Culture and education	43,142	-	7,455	-	(35,687)
Parks and recreation	1,728	1,011	-	-	(717)
Cemetery	13,717	8,074	-	-	(5,643)
Clerk	5,528	-	-	-	(5,528)
<b>Total governmental activities</b>	<b>659,726</b>	<b>47,099</b>	<b>129,364</b>	<b>-</b>	<b>(483,263)</b>
<b>Business-type activities</b>					
General	209,527	75,186	-	-	(134,341)
Sewer	111,513	128,388	-	-	16,875
Sanitation	108,633	118,621	-	-	9,988
Water	202,129	332,479	-	-	130,350
Natural gas	283,895	385,021	-	-	101,126
<b>Total business-type activities</b>	<b>915,697</b>	<b>1,039,695</b>	<b>-</b>	<b>-</b>	<b>123,998</b>
<b>Total primary government</b>	<b><u>\$1,575,423</u></b>	<b><u>\$1,086,794</u></b>	<b><u>\$ 129,364</u></b>	<b><u>\$ -</u></b>	<b><u>\$ (359,265)</u></b>

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense) revenue	\$ (483,263)	\$ 123,998	\$ (359,265)
<b>General revenues</b>			
<b>Taxes</b>			
Sales/Use tax	218,261	-	218,261
Franchise	39,960	-	39,960
Other tax	34,942	-	34,942
Insurance proceeds	1,747	-	1,747
Gain on disposition	507	-	507
Bond cost	-	(14,847)	(14,847)
Bond discount	-	(7,228)	(7,228)
Bond premium	-	78,632	78,632
Other	24,461	3,858	28,319
Interest	398	3,642	4,040
Transfers	84,058	(84,058)	-
<b>Total general revenue and transfers</b>	<b>404,334</b>	<b>(20,001)</b>	<b>384,333</b>
Change in net assets	(78,929)	103,997	25,068
Net assets - beginning	1,056,610	1,777,499	2,834,109
Net assets - ending	<u>\$ 977,681</u>	<u>\$ 1,881,496</u>	<u>\$ 2,859,177</u>

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

TOWN OF FAIRFAX, OKLAHOMA  
BALANCE SHEET - MODIFIED CASH BASIS  
GOVERNMENTAL FUNDS  
JUNE 30, 2013

	General Fund	Cemetery Care	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,747	\$ 16,834	\$ 45,415	\$ 65,996
Investments	-	-	11,415	11,415
Due from other funds	<u>1,774</u>	<u>29,825</u>	<u>-</u>	<u>31,599</u>
<b>TOTAL ASSETS</b>	<u>\$ 5,521</u>	<u>\$ 46,659</u>	<u>\$ 56,830</u>	<u>\$ 109,010</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Due to other funds	<u>\$ 27</u>	<u>\$ 1,774</u>	<u>\$ -</u>	<u>\$ 1,801</u>
<b>TOTAL LIABILITIES</b>	<u>27</u>	<u>1,774</u>	<u>-</u>	<u>1,801</u>
<b>FUND BALANCES</b>				
Assigned	-	44,885	56,830	101,715
Unassigned	<u>5,494</u>	<u>-</u>	<u>-</u>	<u>5,494</u>
<b>TOTAL FUND BALANCES</b>	<u>5,494</u>	<u>44,885</u>	<u>56,830</u>	<u>107,209</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 5,521</u>	<u>\$ 46,659</u>	<u>\$ 56,830</u>	<u>\$ 109,010</u>

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, 2013

Total fund balance \$ 107,209

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	1,601,318	
Accumulated depreciation	<u>(840,846)</u>	<u>870,472</u>
 Total net assets		 <u>\$ 977,681</u>

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, 2013

	General Fund	Cemetery Care	Other Governmental Funds	Total Governmental Funds
<b>Revenue</b>				
Sales tax	\$ 199,937	\$ -	\$ -	\$ 199,937
Use tax	18,324	-	-	18,324
Franchise tax	39,960	-	-	39,960
Alcoholic beverage tax	32,135	-	-	32,135
Cigarette tax	2,807	-	-	2,807
Motor vehicle tax	-	-	9,905	9,905
Gasoline excise tax	-	-	2,565	2,565
Swimming pool	1,011	-	-	1,011
Cemetery	4,239	3,835	-	8,074
License and permits	2,744	-	-	2,744
Intergovernmental	-	-	116,894	116,894
Fines and forfeits	-	-	21,375	21,375
Fire revenue	-	-	5,986	5,986
Rent	7,909	-	-	7,909
Other	22,778	-	1,683	24,461
Interest	237	63	98	398
<b>Total revenue</b>	<u>332,081</u>	<u>3,898</u>	<u>158,506</u>	<u>494,485</u>
<b>Expenditures</b>				
<b>Current</b>				
General government	182,542	-	19,422	201,964
Public safety	308,224	-	10,310	318,534
Street	23,053	-	8,700	31,753
Culture and education	28,325	-	12,214	40,539
Clerk	5,528	-	-	5,528
Council	6,844	-	-	6,844
Cemetery	7,857	305	-	8,162
<b>Total expenditures</b>	<u>562,373</u>	<u>305</u>	<u>50,646</u>	<u>613,324</u>
<b>Excess (deficiency) of revenue over expenditures</b>	<u>(230,292)</u>	<u>3,593</u>	<u>107,860</u>	<u>(118,839)</u>
<b>Other financing sources (uses)</b>				
Insurance proceeds	1,747	-	-	1,747
Auction proceeds	-	-	3,969	3,969
Transfer from other funds	218,504	-	4,430	222,934
Transfer to other funds	(4,000)	(7,853)	(127,023)	(138,876)
<b>Total other financing sources (uses)</b>	<u>216,251</u>	<u>(7,853)</u>	<u>(118,624)</u>	<u>89,774</u>
<b>Net change in fund balance</b>	(14,041)	(4,260)	(10,764)	(29,065)
<b>Fund balances, beginning</b>	19,535	49,145	67,594	136,274
<b>Fund balances, ending</b>	<u>\$ 5,494</u>	<u>\$ 44,885</u>	<u>\$ 56,830</u>	<u>\$ 107,209</u>

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, 2013

Net changes in fund balances - total governmental funds \$ (29,065)

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.

Disposition of fixed assets	(3,462)	
Depreciation expense	(52,526)	
Capital outlay	<u>6,124</u>	<u>(49,864)</u>
Change in net assets		<u>\$ (78,929)</u>

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, 2013

ASSETS

Current assets:	
Cash and cash equivalents	\$ 79,676
Investments	152,188
Due from other funds	27
Restricted assets:	
Restricted for debt service:	
Cash and cash equivalents	249,967
Restricted for utility deposits:	
Cash and cash equivalent	1,917
Investments	<u>106,800</u>
Total current assets	<u>590,575</u>
Non-current assets	
Capital assets:	
Other capital assets, net of accumulated depreciation	<u>3,232,436</u>
Total non-current assets	<u>3,232,436</u>
Total assets	<u>3,823,011</u>

LIABILITIES

Current liabilities:	
Due to other funds	29,825
Utility deposits	116,690
Notes payable, current portion	<u>100,000</u>
Total current liabilities	<u>246,515</u>
Non-current liabilities:	
Notes payable, non-current portion	<u>1,695,000</u>
Total non-current liabilities	<u>1,695,000</u>
Total liabilities	<u>1,941,515</u>

NET ASSETS

Invested in capital assets, net of related debt	1,437,463
Restricted for debt service	249,967
Restricted for utility deposits	108,717
Assigned	<u>85,349</u>
Net assets of business-type activities	<u>\$ 1,881,496</u>

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, 2013

OPERATING REVENUES

Charges for services:	
Natural gas	\$ 369,153
Water charges	332,479
Wastewater charges	128,388
Sanitation charges	118,621
Fees	44,433
Sales tax	15,868
Penalty	30,753
Other	<u>3,858</u>
Total operating revenues	<u>1,043,553</u>

OPERATING EXPENSES

General	209,527
Water department	117,445
Natural gas	224,808
Sewer	65,162
Sanitation department	108,633
Depreciation	<u>140,033</u>
Total operating expenses	<u>865,608</u>
Operating income (loss)	<u>177,945</u>

NON-OPERATING REVENUE (EXPENSES)

Interest income	3,642
Interest on notes payable	(50,089)
Bond cost	(14,847)
Bond discount	(7,228)
Bond premium	<u>78,632</u>
Total non-operating revenue (expenses)	<u>10,110</u>
Income before contributions and transfers	188,055
Transfer from other funds	92,524
Transfer to other funds	<u>(176,582)</u>
Change in net assets	103,997
Total net assets, beginning - restated	<u>1,777,499</u>
Total net assets, ending	<u>\$ 1,881,496</u>

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, 2013

Cash flows from operating activities	
Cash received from customers	\$ 1,041,545
Cash payments to employees	(149,702)
Cash payments to suppliers for goods and services	<u>(575,873)</u>
Net cash provided (used) by operating activities	<u>315,970</u>
Cash flows from non-capital financing activities	
Transfer in	92,524
Transfer out	<u>(176,582)</u>
Net cash provided by non-capital financing activities	<u>(84,058)</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(99,235)
Loan proceeds	1,820,000
Principal paid on notes payable	(1,762,290)
Interest paid on notes payable and fiscal fees	(50,089)
Bond cost	(14,847)
Bond discount	(7,228)
Bond premium	<u>78,632</u>
Net cash used for capital and related financing activities	<u>(35,057)</u>
Cash flows from investing activities	
Interest income	3,642
Transfer to investments	<u>(1,364)</u>
Net cash provided by investing activities	<u>2,278</u>
Net decrease in cash and cash equivalents	199,133
Cash and cash equivalents, beginning	<u>132,427</u>
Cash and cash equivalents, ending	<u>\$ 331,560</u>
Reconciliation of operating income (loss) to net cash provided by(used) by operating activities	
Operating income (loss)	\$ 177,945
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	140,033
Changes in assets and liabilities:	
Increase in utility deposits	<u>(2,008)</u>
Net cash provided by operating activities	<u>\$ 315,970</u>

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

TOWN OF FAIRFAX, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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.

TOWN OF FAIRFAX, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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.

TOWN OF FAIRFAX, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**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.

TOWN OF FAIRFAX, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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, 2013 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.

TOWN OF FAIRFAX, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

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.

TOWN OF FAIRFAX, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013

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, 2013, 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 \$667,959 at June 30, 2013. The bank balance of the deposits at June 30, 2013 was approximately \$545,173.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2013.

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, 2013, 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, 2013 are as follows:

<u>Amount</u>	<u>Due To Other Funds</u>	<u>Due From Other Funds</u>
\$ 29,825	Cemetery Care	Public Works Authority
27	Public Works Authority	General Fund
<u>1,774</u>	General Fund	Cemetery Care
<u>\$ 31,626</u>		

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

TOWN OF FAIRFAX, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

NOTE D - RESTRICTED CASH

The Authority has reported the following as restricted cash:

Utility Deposit reserve	\$ 108,717
Debt reserve	<u>\$ 249,967</u>
Total	<u>\$ 358,684</u>

The debt reserve is held for use in retiring the outstanding notes payable

NOTE E - CAPITAL ASSETS

Changes in capital assets.

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

	CAPITAL ASSETS, DEPRECIATED				Capital Assets Not Depreciated Land
	Buildings	Infrastructure & Improvements Other Than Buildings	Furniture, Machinery, And Equipment	Totals	
<b>PRIMARY GOVERNMENT</b>					
<b>Governmental activities</b>					
Balance, June 30, 2012	\$ 576,153	\$ 502,695	\$ 551,967	\$ 1,630,815	\$ 110,000
Increases	-	-	6,124	6,124	-
Decreases	-	-	(35,621)	(35,621)	-
Balance, June 30, 2013	576,153	502,695	522,470	1,601,318	110,000
<b>Accumulated Depreciation</b>					
Balance, June 30, 2012	323,469	100,659	396,351	820,479	
Increase	12,306	12,634	27,586	52,526	
Decreases	-	-	(32,159)	(32,159)	
Balance, June 30, 2013	335,775	113,293	391,778	840,846	
<b>Governmental activities</b>					
Capital Assets, Net	\$ 240,378	\$ 389,402	\$ 130,692	\$ 760,472	\$ 110,000
<b>Business-type activities</b>					
Balance, June 30, 2012	\$ -	\$ 5,125,805	\$ 102,139	\$ 5,227,944	\$ -
Increases	-	92,524	6,711	99,235	-
Decreases	-	-	-	-	-
Balance, June 30, 2013	-	5,218,329	108,850	5,327,179	-
<b>Accumulated Depreciation</b>					
Balance, June 30, 2012	-	1,925,042	29,668	1,954,710	
Increase	-	133,984	6,049	140,033	
Decreases	-	-	-	-	
Balance, June 30, 2013	-	2,059,026	35,717	2,094,743	
<b>Business-type Activities</b>					
Capital Assets, Net	\$ -	\$ 3,159,303	\$ 73,133	\$ 3,232,436	\$ -
<b>PRIMARY GOVERNMENT</b>					
Capital Assets, Net	\$ 240,378	\$ 3,548,705	\$ 203,825	\$ 3,992,908	\$ 110,000

TOWN OF FAIRFAX, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

DEPRECIATION EXPENSE

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

GOVERNMENT ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
General Government	\$ 9,238	Water	\$ 59,640
Public Safety	12,705	Sewer	46,351
Street	20,697	Natural gas	34,042
Culture and education	2,603		
Parks and recreation	1,728		
Cemetery	5,555		

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, 2013.

	Payable at July 1, 2012	Additions/ Retirements	Balance at June 30, 2013
Rural Development	\$ 1,460,042	\$(1,460,042)	\$ -
Water Resources Board	277,248	(277,248)	-
Water Resources Board	-	1,795,000	1,795,000
	<u>\$ 1,737,290</u>	<u>\$ 57,710</u>	<u>\$ 1,795,000</u>

A brief description of the outstanding notes payable at June 30, 2013 is set forth below:

Outstanding

Oklahoma Water Resources Board loan dated July 2, 2012, original loan amount of \$1,820,000, interest rate of 3.59%, final maturity September 15, 2027	<u>\$ 1,795,000</u>
	<u>\$ 1,795,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Debt Service</u>
2014	\$ 100,000	\$ 58,467	\$ 158,467
2015	100,000	57,617	157,617
2016	105,000	55,217	160,217
2017	105,000	52,697	157,697
2018	105,000	50,177	155,177
2019-2023	585,000	196,197	781,197
2024-2027	695,000	74,406	769,406
Total	<u>\$ 1,795,000</u>	<u>\$ 544,778</u>	<u>\$ 2,339,778</u>

TOWN OF FAIRFAX, OKLAHOMA  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2013  
 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	\$ 177,945
Depreciation	<u>140,033</u>
Net revenue	<u>\$ 317,978</u>
Annual debt service	<u>\$ 116,690</u>
Ratio	<u>2.73 to 1</u>

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 final 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.

TOWN OF FAIRFAX, OKLAHOMA  
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2013

Benefits and eligibility for distribution (full time)	20 years credited service, 2 ½% of final 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 Statute:

<u>Fiscal Year End</u>	<u>Oklahoma Firefighter's Pension And Retirement System</u>	
	<u>Required Contribution</u>	<u>Percentage Contributed</u>
June 30, 2013	\$ 1,440	100%
June 30, 2012	1,380	100%
Jun3 30, 2011	1,260	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, 2013, 2012 and 2011 were \$24,334, \$14,850 and \$24,561, 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.

TOWN OF FAIRFAX, OKLAHOMA  
COMBINING BALANCE SHEET - MODIFIED CASH BASIS  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2013

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 - SUBSEQUENT EVENTS

The Town evaluated subsequent events through October 7, 2013, the date which financial statements were available, to determine if any items need to be disclosed. The Town is not aware of any items which need disclosure.

TOWN OF FAIRFAX, OKLAHOMA  
 COMBINING BALANCE SHEET - MODIFIED CASH BASIS  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2013

	<u>Grant Fund</u>	<u>Health Needs Sales Tax</u>	<u>Street And Alley</u>	<u>Library</u>	<u>Court</u>	<u>Volunteer Fire</u>	<u>Total Nonmajor Funds</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 1,180	\$ -	\$ 34,340	\$ 6,744	\$ 148	\$ 3,003	\$ 45,415
Investments	-	-	-	11,415	-	-	11,415
Due from other funds	-	-	-	-	-	-	-
<b>TOTAL ASSETS</b>	<u>\$ 1,180</u>	<u>\$ -</u>	<u>\$ 34,340</u>	<u>\$ 18,159</u>	<u>\$ 148</u>	<u>\$ 3,003</u>	<u>\$ 56,830</u>
<b>LIABILITIES</b>							
Due to others	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>TOTAL LIABILITIES FUND BALANCES</b>	-	-	-	-	-	-	-
Unreserved, reported in nonmajor special revenue funds	<u>1,180</u>	<u>-</u>	<u>34,340</u>	<u>18,159</u>	<u>148</u>	<u>3,003</u>	<u>56,830</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 1,180</u>	<u>\$ -</u>	<u>\$ 34,340</u>	<u>\$ 18,159</u>	<u>\$ 148</u>	<u>\$ 3,003</u>	<u>\$ 56,830</u>

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, 2013

	Grant Fund	Health Needs Sales Tax	Street And Alley	Library	Court	Volunteer Fire	Total Non-major Funds
REVENUES							
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Motor vehicle tax	-	-	9,905	-	-	-	9,905
Gasoline excise tax	-	-	2,565	-	-	-	2,565
Fines and forfeits	-	-	-	-	21,375	-	21,375
Intergovernmental	109,439	-	-	7,455	-	-	116,894
Donations	-	-	-	-	-	-	-
Fire revenue	-	-	-	-	-	5,986	5,986
Other	-	-	-	383	-	1,300	1,683
Interest	-	-	-	98	-	-	98
TOTAL REVENUES	<u>109,439</u>	<u>-</u>	<u>12,470</u>	<u>7,936</u>	<u>21,375</u>	<u>7,286</u>	<u>158,506</u>
EXPENDITURES							
Current							
General	19,422	-	-	-	-	-	19,422
Culture and education	-	-	-	12,214	-	-	12,214
Street	-	-	8,700	-	-	-	8,700
Public safety	-	-	-	-	1,374	8,936	10,310
TOTAL EXPENDITURES	<u>19,422</u>	<u>-</u>	<u>8,700</u>	<u>12,214</u>	<u>1,374</u>	<u>8,936</u>	<u>50,646</u>
Excess of revenues over (under) expenditures	<u>90,017</u>	<u>-</u>	<u>3,770</u>	<u>(4,278)</u>	<u>20,001</u>	<u>(1,650)</u>	<u>107,860</u>
Other financing sources(uses)							
Auction proceeds	-	-	1,549	350	-	2,070	3,969
Transfers from other funds	-	-	-	4,000	-	430	4,430
Transfer to other funds	<u>(92,524)</u>	<u>(14,639)</u>	<u>-</u>	<u>-</u>	<u>(19,860)</u>	<u>-</u>	<u>(127,023)</u>
Net other financing sources(uses)	<u>(92,524)</u>	<u>(14,639)</u>	<u>1,549</u>	<u>4,350</u>	<u>(19,860)</u>	<u>2,500</u>	<u>(118,624)</u>
Net change in fund balance	(2,507)	(14,639)	5,319	72	141	850	(10,764)
Fund balances, beginning	<u>3,687</u>	<u>14,639</u>	<u>29,021</u>	<u>18,087</u>	<u>7</u>	<u>2,153</u>	<u>67,594</u>
Fund balances - ending	<u>\$ 1,180</u>	<u>\$ -</u>	<u>\$ 34,340</u>	<u>\$ 18,159</u>	<u>\$ 148</u>	<u>\$ 3,003</u>	<u>\$ 56,830</u>

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

INDEPENDENT AUDITOR'S 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, in accordance with the 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 of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Fairfax, Oklahoma, modified cash basis, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Fairfax's basic financial statements and have issued my report thereon dated October 7, 2013 which did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Town of Fairfax's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Fairfax's internal control. Accordingly, I do not express an opinion of the effectiveness of Town of Fairfax's internal control.

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. 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.

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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,



Ralph Osborn  
Certified Public Accountant  
Bristow, Oklahoma  
October 7, 2013