

TOWN OF FAIRFAX, OKLAHOMA
ANNUAL FINANCIAL REPORT
JUNE 30, 2014

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 modified cash basis 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, 2014, 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 described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the presentation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis 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, 2014, and the respective changes in modified cash basis financial position, thereof for the year then ended in accordance with the basis of accounting as described in Note A.

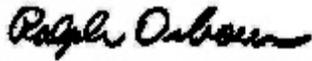
Basis of Accounting

I draw attention to Note A of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. My opinion is not modified with respect to that matter.

Other Matters

The Town of Fairfax, Oklahoma has not presented Management's Discussion and Analysis and budgetary comparison schedules 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 6, 2014, 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 6, 2014

TOWN OF FAIRFAX, OKLAHOMA
STATEMENT OF NET ASSETS
MODIFIED CASH BASIS
JUNE 30, 2014

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 58,334	\$ 92,154	\$ 150,488
Investments	11,484	152,188	163,672
Due from other funds	29,798	(29,798)	-
Restricted assets:			
Restricted for debt service:			
Cash and cash equivalents	-	249,784	249,784
Restricted for utility deposits:			
Cash and cash equivalents	-	4,975	4,975
Investments	-	104,300	104,300
Total current assets	<u>99,616</u>	<u>573,603</u>	<u>673,219</u>
Non-current assets:			
Capital assets			
Land	110,000	-	110,000
Other capital assets net of accumulated depreciation	<u>798,390</u>	<u>3,264,745</u>	<u>4,063,135</u>
Total non-current assets	<u>908,390</u>	<u>3,264,745</u>	<u>4,173,135</u>
 Total assets	 <u>1,008,006</u>	 <u>3,838,348</u>	 <u>4,846,354</u>
LIABILITIES			
Current liabilities:			
Utility deposits	-	116,930	116,930
Notes, payable, current portion	<u>-</u>	<u>100,000</u>	<u>100,000</u>
Total current liabilities	<u>-</u>	<u>216,930</u>	<u>216,930</u>
Non-current liabilities:			
Notes, payable, non-current portion	<u>-</u>	<u>1,595,000</u>	<u>1,595,000</u>
Total non-current liabilities	<u>-</u>	<u>1,595,000</u>	<u>1,595,000</u>
 Total liabilities	 <u>-</u>	 <u>1,811,930</u>	 <u>1,811,930</u>
NET ASSETS			
Nonspendable	938,188	1,423,017	2,361,205
Restricted for debt service	-	249,784	249,784
Restricted for utility deposits	-	109,275	109,275
Assigned	68,298	244,342	312,640
Unassigned	<u>1,520</u>	<u>-</u>	<u>1,520</u>
 Total net assets	 <u>\$1,008,006</u>	 <u>\$2,026,418</u>	 <u>\$ 3,034,424</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, 2014

Function/Programs	Program Revenue				Net (Expenses) Revenue
	Expenses	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					
General government	\$ 193,286	\$ 15,685	\$ 33,123	\$ 99,885	\$ (44,593)
Public safety	326,539	18,653	5,474	-	(302,412)
Street	76,055	-	10,561	178,760	113,266
Council	5,676	-	-	-	(5,676)
Culture and education	448,82	-	5,854	-	(39,028)
Parks and recreation	3,104	834	-	-	(2,270)
Cemetery	19,110	20,172	-	-	1,062
Clerk	5,541	-	-	-	(5,541)
Total governmental activities	674,193	55,344	55,012	278,645	(285,192)
Business-type activities					
General	223,883	67,158	-	-	(156,725)
Sewer	161,434	125,083	-	-	(36,351)
Sanitation	105,965	120,902	-	-	14,937
Water	148,298	313,928	-	-	165,630
Natural gas	336,672	494,076	-	-	157,404
Total business-type activities	976,252	1,121,147	-	-	144,895
Total primary government	\$1,650,445	\$1,176,491	\$ 55,012	\$ 278,645	\$ (140,297)

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Changes in net assets:			
Net (expense) revenue	\$ (285,192)	\$ 144,895	\$ (140,297)
General revenues			
Taxes			
Sales/Use tax	230,572	-	230,572
Franchise	37,995	-	37,995
Other tax	6,083	-	6,083
Other	8,575	30,547	39,122
Interest	144	1,090	1,234
Transfers	31,611	(31,611)	-
Total general revenue and transfers	314,980	26	315,006
Change in net assets	29,788	144,921	174,709
Net assets - beginning	978,218	1,881,497	2,859,715
Net assets - ending	<u>\$1,008,006</u>	<u>\$ 2,026,418</u>	<u>\$ 3,034,424</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, 2014

	General Fund	Cemetery Care	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,520	\$ 11,553	\$ 45,261	\$ 58,334
Investments	-	-	11,484	11,484
Due from other funds	<u>1,747</u>	<u>28,051</u>	<u>-</u>	<u>29,798</u>
TOTAL ASSETS	<u>\$ 3,267</u>	<u>\$ 39,604</u>	<u>\$ 56,745</u>	<u>\$ 99,616</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Due to other funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Nonspendable	1,747	28,051	-	29,798
Assigned	-	11,553	56,745	68,298
Unassigned	<u>1,520</u>	<u>-</u>	<u>-</u>	<u>1,520</u>
TOTAL FUND BALANCES	<u>3,267</u>	<u>39,604</u>	<u>56,745</u>	<u>99,616</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 3,267</u>	<u>\$ 39,604</u>	<u>\$ 56,745</u>	<u>\$ 99,616</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, 2014

Total fund balance \$ 99,616

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	1,691,329	
Accumulated depreciation	<u>(892,939)</u>	<u>908,390</u>
 Total net assets		 <u>\$1,008,006</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, 2014

	General Fund	Cemetery Care	Other Governmental Funds	Total Governmental Funds
Revenue				
Sales tax	\$ 212,931	\$ -	\$ -	\$ 212,931
Use tax	17,641	-	-	17,641
Franchise tax	37,995	-	-	37,995
Alcoholic beverage tax	33,123	-	-	33,123
Cigarette tax	2,565	-	-	2,565
Motor vehicle tax	-	-	10,561	10,561
Gasoline excise tax	-	-	3,518	3,518
Swimming pool	834	-	-	834
Cemetery	14,576	5,596	-	20,172
License and permits	5,226	-	-	5,226
Intergovernmental	-	-	289,973	289,973
Fines and forfeits	260	-	18,393	18,653
Rent	10,459	-	-	10,459
Other	4,946	477	3,152	8,575
Interest	-	41	103	144
	<u>340,556</u>	<u>6,114</u>	<u>325,700</u>	<u>672,370</u>
Total revenue				
Expenditures				
Current				
General government	183,844	-	-	183,844
Public safety	310,430	-	9,666	320,096
Street	23,522	-	108,818	132,340
Parks and Recreation	1,376	-	-	1,376
Culture and education	28,479	-	14,080	42,559
Clerk	5,541	-	-	5,541
Council	5,676	-	-	5,676
Cemetery	9,284	11,395	-	20,679
	<u>568,152</u>	<u>11,395</u>	<u>132,564</u>	<u>712,111</u>
Total expenditures				
Excess (deficiency) of revenue over expenditures	<u>(227,596)</u>	<u>(5,281)</u>	<u>193,136</u>	<u>(39,741)</u>
Other financing sources (uses)				
Transfer from other funds	228,830	-	4,000	232,830
Transfer to other funds	(4,000)	-	(197,219)	(201,219)
Total other financing sources (uses)	<u>224,830</u>	<u>-</u>	<u>(193,219)</u>	<u>31,611</u>
Net change in fund balance	(2,766)	(5,281)	(83)	(8,130)
Fund balances, beginning	6,033	44,885	56,828	107,746
Fund balances, ending	<u>\$ 3,267</u>	<u>\$ 39,604</u>	<u>\$ 56,745</u>	<u>\$ 99,616</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, 2014

Net changes in fund balances - total governmental funds \$ (8,130)

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.

Depreciation expense	(52,093)	
Capital outlay	<u>90,011</u>	<u>37,918</u>
Change in net assets		<u>\$ 29,788</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, 2014

ASSETS

Current assets:	
Cash and cash equivalents	\$ 92,154
Investments	152,188
Restricted assets:	
Restricted for debt service:	
Cash and cash equivalents	249,784
Restricted for utility deposits:	
Cash and cash equivalent	4,975
Investments	<u>104,300</u>
Total current assets	<u>603,401</u>
Non-current assets	
Capital assets:	
Other capital assets, net of accumulated depreciation	<u>3,264,745</u>
Total non-current assets	<u>3,264,745</u>
Total assets	<u>3,868,146</u>

LIABILITIES

Current liabilities:	
Due to other funds	29,798
Utility deposits	116,930
Notes payable, current portion	<u>100,000</u>
Total current liabilities	<u>246,728</u>
Non-current liabilities:	
Notes payable, non-current portion	<u>1,595,000</u>
Total non-current liabilities	<u>1,595,000</u>
Total liabilities	<u>1,841,728</u>

NET ASSETS

Nonspendable	1,423,017
Restricted for debt service	249,784
Restricted for utility deposits	109,275
Assigned	<u>244,342</u>
Net assets of business-type activities	<u>\$ 2,026,418</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, 2014

OPERATING REVENUES

Charges for services:	
Natural gas	\$ 473,905
Water charges	313,928
Wastewater charges	125,083
Sanitation charges	120,902
Fees	44,107
Sales tax	20,171
Penalty	23,051
Other	<u>30,547</u>
Total operating revenues	<u>1,151,694</u>

OPERATING EXPENSES

General	211,999
Water department	104,338
Natural gas	302,963
Sewer	49,517
Sanitation department	105,965
Depreciation	<u>143,428</u>
Total operating expenses	<u>918,210</u>
Operating income (loss)	<u>233,484</u>

NON-OPERATING REVENUE (EXPENSES)

Interest income	1,090
Interest on notes payable	<u>(58,042)</u>
Total non-operating revenue(expenses)	<u>(56,952)</u>
Income before contributions and transfers	176,532
Transfer from other funds	179,789
Transfer to other funds	<u>(211,400)</u>
Total Transfers	<u>(31,611)</u>
Change in net assets	144,921
Total net assets, beginning - restated	<u>1,881,497</u>
Total net assets, ending	<u>\$ 2,026,418</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, 2014

Cash flows from operating activities	
Cash received from customers	\$ 1,151,934
Cash payments to employees	(183,975)
Cash payments to suppliers for goods and services	<u>(590,807)</u>
Net cash provided (used) by operating activities	<u>377,152</u>
Cash flows from non-capital financing activities	
Transfer in	179,789
Transfer out	<u>(211,400)</u>
Net cash provided by non-capital financing activities	<u>(31,611)</u>
Cash flows from capital and related financing activities	
Acquisition of fixed assets	(175,737)
Principal paid on notes payable	(100,000)
Interest paid on notes payable and fiscal fees	<u>(58,042)</u>
Net cash used for capital and related financing activities	<u>(333,779)</u>
Cash flows from investing activities	
Interest income	1,090
Transfer from investments	<u>2,500</u>
Net cash provided by investing activities	<u>3,590</u>
Net increase in cash and cash equivalents	15,352
Cash and cash equivalents, beginning	<u>331,561</u>
Cash and cash equivalents, ending	<u><u>\$ 346,913</u></u>
Reconciliation of operating income (loss) to net cash provided by (used) by operating activities	
Operating income (loss)	\$ 233,484
Adjustments to reconcile operating income to net cash used by operating activities:	
Depreciation	143,428
Changes in assets and liabilities:	
Increase in utility deposits	<u>240</u>
Net cash provided by operating activities	<u><u>\$ 377,152</u></u>

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

TOWN OF FAIRFAX, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

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.

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, 2014

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, 2014

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, 2014

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, 2014 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, 2014

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, 2014

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, 2014, 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 \$673,219 at June 30, 2014. The bank balance of the deposits at June 30, 2014 was approximately \$690,380.

Credit Risk

Fixed-income securities are subject to credit risk. However, the Town did not have fixed income securities at June 30, 2014.

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, 2014, 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, 2014 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, 2014

NOTE D - RESTRICTED CASH

The Authority has reported the following as restricted cash:

Utility Deposit reserve	\$ 109,275
Debt reserve	<u>\$ 249,784</u>
Total	<u>\$ 359,059</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	
PRIMARY GOVERNMENT					
Governmental activities					
Balance, June 30, 2013	\$ 576,153	\$ 502,695	\$ 522,470	\$ 1,601,318	\$ 110,000
Increases	-	76,011	14,000	90,011	-
Decreases	-	-	-	-	-
Balance, June 30, 2014	<u>576,153</u>	<u>578,706</u>	<u>536,470</u>	<u>1,691,329</u>	<u>110,000</u>
Accumulated Depreciation					
Balance, June 30, 2013	335,775	113,293	391,778	840,846	
Increase	12,308	9,120	30,665	52,093	
Decreases	-	-	-	-	
Balance, June 30, 2014	<u>348,083</u>	<u>122,413</u>	<u>422,443</u>	<u>892,939</u>	
Governmental activities					
Capital Assets, Net	<u>\$ 228,070</u>	<u>\$ 456,293</u>	<u>\$ 114,027</u>	<u>\$ 798,390</u>	<u>\$ 110,000</u>
Business-type activities					
Balance, June 30, 2013	\$ -	\$ 5,218,329	\$ 108,850	\$ 5,327,179	\$ -
Increase	-	175,737	-	175,737	-
Decreases	-	-	-	-	-
Balance, June 30, 2014	<u>-</u>	<u>5,394,066</u>	<u>108,850</u>	<u>5,502,916</u>	<u>-</u>
Accumulated Depreciation					
Balance, June 30, 2013	-	2,059,026	35,717	2,094,743	
Increase	-	136,803	6,625	143,428	
Decreases	-	-	-	-	
Balance, June 30, 2014	<u>-</u>	<u>2,195,829</u>	<u>42,342</u>	<u>2,238,171</u>	
Business-type Activities					
Capital Assets, Net	<u>\$ -</u>	<u>\$ 3,198,237</u>	<u>\$ 66,508</u>	<u>\$ 3,264,745</u>	<u>\$ -</u>
PRIMARY GOVERNMENT					
Capital Assets, Net	<u>\$ 228,070</u>	<u>\$ 3,654,530</u>	<u>\$ 180,535</u>	<u>\$ 4,063,135</u>	<u>\$ 110,000</u>

TOWN OF FAIRFAX, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014

DEPRECIATION EXPENSE

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

GOVERNMENT ACTIVITIES		BUSINESS-TYPE ACTIVITIES	
General Government	\$ 9,442	Water	\$ 43,960
Public Safety	12,943	Sewer	53,875
Street	19,726	Natural gas	33,709
Culture and education	2,323	General	11,884
Parks and recreation	1,728		
Cemetery	5,931		

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, 2014.

	Payable at July 1, 2013	Additions/ Retirements	Balance at June 30, 2014
Water Resources Board	<u>\$ 1,795,000</u>	<u>\$ (100,000)</u>	<u>\$ 1,695,000</u>
	<u>\$ 1,795,000</u>	<u>\$ (100,000)</u>	<u>\$ 1,695,000</u>

A brief description of the outstanding notes payable at June 30, 2014 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>\$ 1,695,000</u>
	<u>\$ 1,695,000</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>
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	110,000	47,657	157,657
2020-2024	605,000	172,705	777,705
2025-2028	565,000	50,238	615,238
Total	<u>\$ 1,695,000</u>	<u>\$ 486,308</u>	<u>\$ 2,181,308</u>

TOWN OF FAIRFAX, OKLAHOMA
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2014
 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	\$ 233,484
Depreciation	<u>143,428</u>
Net revenue	<u>\$ 376,912</u>
Annual debt service	<u>\$ 116,690</u>
Ratio	<u>3.23 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, 2014

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, 2014	\$ 1,380	100%
June 30, 2013	1,440	100%
Jun3 30, 2012	1,380	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, 2014, 2013 and 2012 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, 2014

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 6, 2014, 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, 2014

	<u>Grant Fund</u>	<u>Street And Alley</u>	<u>Library</u>	<u>Court</u>	<u>Volunteer Fire</u>	<u>Total Nonmajor Funds</u>
ASSETS						
Cash and cash equivalents	\$ 148	\$ 39,520	\$ 4,041	\$ 7	\$ 1,545	\$ 45,261
Investments	-	-	11,484	-	-	11,484
Due from other funds	-	-	-	-	-	-
TOTAL ASSETS	<u>\$ 148</u>	<u>\$ 39,520</u>	<u>\$ 15,525</u>	<u>\$ 7</u>	<u>\$ 1,545</u>	<u>\$ 56,745</u>
LIABILITIES						
Due to others	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES FUND BALANCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Unreserved, reported in nonmajor special revenue funds	<u>148</u>	<u>39,520</u>	<u>15,525</u>	<u>7</u>	<u>1,545</u>	<u>56,745</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 148</u>	<u>\$ 39,520</u>	<u>\$ 15,525</u>	<u>\$ 7</u>	<u>\$ 1,545</u>	<u>\$ 56,745</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, 2014

	Grant Fund	Street And Alley	Library	Court	Volunteer Fire	Total Non-major Funds
REVENUES						
Motor vehicle tax	\$ -	\$ 10,561	\$ -	\$ -	\$ -	\$ 10,561
Gasoline excise tax	-	3,518	-	-	-	3,518
Fines and forfeits	-	-	-	18,393	-	18,393
Intergovernmental	178,760	99,885	5,854	-	5,474	289,973
Other	-	-	1,522	1,130	500	3,152
Interest	-	34	69	-	-	103
TOTAL REVENUES	<u>178,760</u>	<u>113,998</u>	<u>7,445</u>	<u>19,523</u>	<u>5,974</u>	<u>325,700</u>
EXPENDITURES						
Current						
Culture and education	-	-	14,080	-	-	14,080
Street	-	108,818	-	-	-	108,818
Public safety	-	-	-	2,234	7,432	9,666
TOTAL EXPENDITURES	<u>-</u>	<u>108,818</u>	<u>14,080</u>	<u>2,234</u>	<u>7,432</u>	<u>132,564</u>
Excess of revenues over (under) expenditures	<u>178,760</u>	<u>5,180</u>	<u>(6,635)</u>	<u>17,289</u>	<u>(1,458)</u>	<u>193,136</u>
Other financing sources(uses)						
Transfers from other funds	-	-	4,000	-	-	4,000
Transfer to other funds	(179,789)	-	-	(17,430)	-	(197,219)
Net other financing sources(uses)	<u>(179,789)</u>	<u>-</u>	<u>4,000</u>	<u>(17,430)</u>	<u>-</u>	<u>(193,219)</u>
Net change in fund balance	(1,029)	5,180	(2,635)	(141)	(1,458)	(83)
Fund balances, beginning	<u>1,177</u>	<u>34,340</u>	<u>18,160</u>	<u>148</u>	<u>3,003</u>	<u>56,828</u>
Fund balances - ending	<u>\$ 148</u>	<u>\$ 39,520</u>	<u>\$ 15,525</u>	<u>\$ 7</u>	<u>\$ 1,545</u>	<u>\$ 56,745</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, 2014, 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 6, 2014.

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.

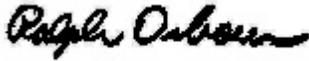
Compliance and Other Matters

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 6, 2014