



# TOWN OF FAIRFAX

## STAFF REPORT

### March 5, 2014

**TO:** Mayor and Town Council

**FROM:** Michael Vivrette, Finance Director *GV*

**SUBJECT:** File and accept FY11-12 Audit

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#### **RECOMMENDATION**

Receive and accept Financial Statements and Independent Auditor's Report

#### **DISCUSSION**

The Town auditors, Maze and Associates, have issued the Audited Financial Statements for the Town consisting of the Basic Financial Statements and Independent Auditor's Report for June 30, 2012. The statements and report have also been reviewed by the Finance Committee at their February meeting. Katherine Yuen of Maze and Associates will make a presentation to the Council regarding Fiscal Year 11-12 Financial Statements.

Maze and Associates will be commencing the audit for FY13 beginning mid April.

#### **FISCAL IMPACT**

The audit serves to give an independent professional opinion as to the fairness of the Town's financial statements at June 30, 2012. They have issued a "clean" opinion that the financial statements are free from material misstatement.

Financial activity for FY12 has been factored into the Fund balance carry forward in the current year's budget. The net result of the audit will be that the carry-forward fund balance for the General Fund is \$53,776 higher than originally estimated.

#### **ATTACHMENTS**

Basic Financial Statements

# Town of Fairfax

Fairfax, California

*Basic Financial Statements and  
Independent Auditor's Report*

*For the year ended June 30, 2012*

# Town of Fairfax

## Table of Contents

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	<u>Page</u>
<b>Independent Auditor’s Report</b> .....	1
<b>Management’s Discussion and Analysis</b> .....	3
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets .....	12
Statement of Activities.....	13
Fund Financial Statements:	
<i>Governmental Fund Financial Statements:</i>	
Balance Sheet .....	14
Reconciliation of the Governmental Funds – Balance Sheet With the Statement of Net Assets .....	17
Statement of Revenues, Expenditures and Changes in Fund Balances .....	18
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds With the Statement of Activities.....	20
<i>Fiduciary Fund Financial Statements:</i>	
Statement of Fiduciary Net Assets .....	21
Notes to Basic Financial Statements.....	25
<b>Required Supplementary Information:</b>	
Budgetary Principles.....	51
Schedules of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual – Major Funds:	
General Fund .....	52
Measure K Special Revenue Fund.....	53

# Town of Fairfax

## Table of Contents

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Page

**Supplementary Information:**

Non-Major Governmental Funds:

Combining Balance Sheets .....	56
Combining Statements of Revenues, Expenditures and Changes in Fund Balances .....	58
Combining Schedules of Revenues, Expenditures and Changes In Fund Balances – Budget and Actual.....	60

Agency Funds:

Statements of Changes in Assets and Liabilities.....	62
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**INDEPENDENT AUDITOR'S REPORT ON  
BASIC FINANCIAL STATEMENTS**

Honorable Mayor and Town Council  
of the Town of Fairfax  
Fairfax, California

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Fairfax (Town), California, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fairfax, California, as of June 30, 2012 and the respective changes in the financial position and cash flows, where applicable, for the year then ended in conformity with generally accepted accounting principles in the United States of America.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis and budgetary comparisons for the General and major Special Revenue funds be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not required as part of the basic financial statements of the Town of Fairfax, California. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Maze & Associates*

January 11, 2014

**Town of Fairfax**  
**Management's Discussion and Analysis**

This discussion and analysis of the Town's financial activities and performance provides an overview for the fiscal year ended June 30, 2012. Please read this in conjunction with the Town's financial statements, which follow this discussion and analysis.

**GOVERNMENT-WIDE HIGHLIGHTS**

- The Government-Wide Statement of Net Assets appears as the first statement of the Basic Financial Statements and is summarized in this Management's Discussion and Analysis section. The statement shows the Town's assets to be \$11,103,094, liabilities of \$7,965,423 and net assets of \$3,137,671 at June 30, 2012. This compares with assets of \$11,096,476, liabilities of \$7,800,923 and net assets of \$3,295,553 at June 30, 2011.
- The Government-Wide Statement of Activities and Changes in Net Assets appears as the second statement of the Basic Financial Statements and is summarized in this Management's Discussion and Analysis section. This statement shows a decrease in net assets of \$157,882 for the fiscal year ended June 30, 2012 as compared to an increase of \$375,686 for the fiscal year ended June 30, 2011. Revenues for fiscal 2012 decreased by \$528,286 from the prior year, primarily due to reduced Capital Improvement reimbursements from FEMA and other grants, offsetting increased property tax revenues (due to higher Assessed Valuation) and three months of a new add-on sales tax. Expenses for the same period increased by \$5,282, mainly as a result of reduced expenditures on capital improvement projects, offset by increases in debt service and public safety costs.
- The Town's long-term debt (including current portion & unamortized premium) totaled \$6,818,564 as of June 30, 2012, which includes the outstanding balance on the Measure K bonds. Additionally, the Town has accrued \$135,965 of current claims payable.

**FUND HIGHLIGHTS**

At the close of fiscal year 2012, the Town's governmental funds reported a combined ending fund balance of \$2,829,028 as compared to \$2,404,635 at June 30, 2011. The detailed components of Revenues and Expenditures can be found in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances.

## TOWN'S HIGHLIGHTS

During 2011-2012, the Town accomplished the following key projects:

- Completed two FEMA funded projects: the pedestrian bridge replacement over the Fairfax Creek and the tennis court bank stabilization project.
- Secured \$38,000 in Federal stimulus funds for the retrofit of Downtown streetlights to make them more energy efficient.
- Began the planning and design for numerous capital projects such as:
  - Bike Spine "Safe Route to Schools" project
  - Pastori Sidewalk
  - Oak Manor sidewalk
  - Sir Francis Drake Bike Lane Striping project
  - Various street resurfacing projects
- Repaired the Town's street sweeper and began sweeping the streets again saving the Town approximately \$30,000 per year.
- Implemented key revenue enhancement or cost savings such as:
  - Fairfax voters approved a ½ cent sales tax measure in November 2011 for five years to help fund Town operations.
  - Negotiated a contract with the Town of Ross to provide dispatching services for their Police Department. This will generate \$21,000 per year to the Town for the first three years of the contract and increase to \$31,000 in years 4 and 5.
  - Refinanced general obligation bonds saving \$500,000 in interest and generating \$185,000 in new funds for Measure K road projects.
- Completed significant Planning activities such as:
  - Adoption of the Town's General Plan 2010-2030;
  - Combined the functions of the Design Review Board with the Planning Commission resulting in a more streamlined approval process and costs savings to the Town;
  - Worked with the property owner and Good Earth to complete the opening of their store at their new location at Center and Pastori.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business. They provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances.

The Statement of Net Assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town is improving or declining.

The Statement of Activities and Changes in Net Assets presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some of the revenues and expenses reported in this statement may result in cash flows only in future fiscal periods, such as revenues related to uncollected taxes and interest expense incurred but not paid.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other governmental entities, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds of governmental entities are divided into two categories: governmental funds and business-type funds.

### Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on (1) short-term inflows and outflows of spendable resources and (2) the remaining year-end balances available for spending. This information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental fund financial statements is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances provide a reconciliation to assist the reader with this comparison between governmental funds and governmental activities.

The Town maintains 18 individual governmental funds. In the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances, information is presented as Major Fund and Non-major Governmental Funds. The Major Fund includes the following funds of the General Fund:

- General Fund
- Dry Period Financing Fund
- Equipment Replacement Fund
- Building and Planning Fund
- Communication Equipment Replacement Fund
- Retirement Fund
- Office Equipment Replacement Fund

The balance of the funds is represented in the Non-major Governmental Funds, and is further broken down into three categories here: Special Revenue, Capital Projects, and Debt Service.

Special Revenue funds generally account for revenues derived from specific sources. These funds are required by statute or ordinance to finance particular functions or activities of government. They include the following funds:

- Gas Tax Fund
- Special Police Fund
- Open Space Fund
- Youth Recreation Fund
- Measure I Municipal Services Fund

Capital Projects funds are used to account for financial resources used for the acquisition or construction of major capital facilities, infrastructure, and equipment other than those financed by proprietary funds. They include the following funds:

- Grants Fund
- Town Fund
- Fairfax Creek Restoration Fund
- Storm Fund
- Emergency Watershed Protection Fund

Non-major Governmental Funds: Debt Service. The Measure K Debt Service funds are used to account for principal and interest payments on the Town's Measure K bond debts:

- Measure K Debt Service Series 2000 Fund
- Measure K Debt Service Series 2002 Fund
- Measure K Debt Service Series 2006 Fund
- Measure K Debt Service Series 2008 Fund
- Measure K Debt Service Series 2012 Fund

#### Agency Funds

Agency funds are used to account for assets held by the Town in a fiduciary capacity or as an agent for individuals, governmental entities, and others. The Pavilion Renovation Fund accounts for assets held by the Town to be used for renovation of the Pavilion.

#### Business-type Funds

The Town maintains no business-type funds.

#### **Notes to the Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow the basic financial statements.

#### **Required Supplementary Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information other than this discussion and analysis concerning the Town's budgetary comparison schedules and PERS schedule of funding progress.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Town has presented its financial statements in accordance with GASB Statement No. 34, *Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments*. Please note that the Town does not conduct any business-type activities and therefore, all financial analysis schedules only show governmental activities.

### Net Assets

Net assets for the Town are summarized below and an analysis follows:

	Governmental Activities		Percentage Change
	2012	2011	
Cash and investments	\$ 2,715,879	\$ 2,611,055	4.0%
Capital assets, net	7,775,814	8,124,945	-4.3%
Other assets	611,401	360,476	69.6%
<b>Total assets</b>	<b>11,103,094</b>	<b>11,096,476</b>	<b>0.1%</b>
Current liabilities	838,878	774,325	8.3%
Non-current liabilities	7,126,545	7,026,598	1.4%
<b>Total liabilities</b>	<b>7,965,423</b>	<b>7,800,923</b>	<b>2.1%</b>
Invested in capital assets, net	1,146,719	1,467,209	-21.8%
Restricted	1,278,924	913,731	40.0%
Unrestricted	712,028	914,613	-22.1%
<b>Net assets</b>	<b>\$ 3,137,671</b>	<b>\$ 3,295,553</b>	<b>-4.8%</b>

Net assets invested in capital assets (e.g. land, buildings, equipment, and infrastructure) of \$1,146,719 at the end of fiscal year 2012 represents the cost of these assets less any outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided from other sources other than the related assets, because the capital assets themselves cannot be used to repay these debts.

Restricted net assets of \$1,278,924 at the end of fiscal 2012 represent resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets balance of \$712,028 is available to finance day-to-day operations without constraints.

## Changes in Net Assets

Changes in net assets for the Town are summarized below and an analysis follows:

	Governmental Activities		Percentage Change
	2012	2011	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 1,123,970	\$ 981,712	14.5%
Operating grants & contributions	374,754	800,040	-53.2%
General revenues:			
Taxes	6,387,285	6,283,694	1.6%
Intergovernmental	-	314,762	-100.0%
Use of Money & Property	5,462	3,278	66.6%
Miscellaneous	140,762	27,033	420.7%
Transfers	-	150,000	-100.0%
<b>Total revenues</b>	<b>8,032,233</b>	<b>8,560,519</b>	<b>-6.2%</b>
<b>Expenses:</b>			
General government	1,302,252	1,347,945	-3.4%
Public safety	4,775,121	4,711,645	1.3%
Public works	761,888	840,379	-9.3%
Planning & Building	548,173	562,164	-2.5%
Parks and recreation	379,470	362,685	4.6%
Debt Service	423,211	360,015	17.6%
<b>Total expenses</b>	<b>8,190,115</b>	<b>8,184,833</b>	<b>0.1%</b>
<b>Change in net assets</b>	<b>(157,882)</b>	<b>375,686</b>	<b>-142.0%</b>
<b>Net assets - beginning of year</b>	<b>3,295,553</b>	<b>2,919,867</b>	<b>12.9%</b>
<b>Net assets - end of year</b>	<b>\$ 3,137,671</b>	<b>\$ 3,295,553</b>	<b>-4.8%</b>

Net assets decreased \$157,882 during the fiscal year ended June 30, 2012. Total revenues for fiscal year 2012 were \$8,032,233 as compared to \$8,560,519 for fiscal year 2011. The approximately \$528,286 decrease in revenues is mainly attributed to increased fees, sales & property taxes and investment earnings; offset by reduced capital project grants received and intergovernmental earnings.

Total expenses for the year ended June 30, 2012 were \$ 8,190,115 compared with \$8,184,833 for the same period in 2011. The approximate \$5,282 increase in expenses primarily reflects increased costs in public safety, parks & recreation and debt service offset by decreases in costs for general government, public works and building & planning.

## ANALYSIS OF MAJOR GOVERNMENTAL FUNDS

### **General Fund**

The general fund is the chief operating fund of the Town of Fairfax. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$1,673,542.

General Fund revenue during the FY 2011-12 year totaled 6,415,026, which was more than the final budgeted amount by \$336,879, or 5.5%. This revenue increase primarily relates to higher than projected sales tax and fees & permits. The sales tax measure passed during the fiscal year after the budget was adopted began bring revenue in towards the end of the year.

General Fund expenditures for FY 2011-12 totaled \$7,042,249, and were higher than the final budgeted amount by \$27,924 or .4%. This is related to an higher-than-budgeted expenditures in public works, parks & recreation, planning & building and capital outlay offset by cost savings in all other departments.

### **Measure K Special Revenue Fund**

The Measure K Special Revenue Fund was created to finance capital improvements to community facilities, streets, and storm drains for the Town of Fairfax from Measure K funds. At the end of the current fiscal year, the restricted fund balance of the fund was \$252,712. The increase is attributed primarily to \$189,417 of additional funds raised through the refinance of general obligation bonds

### **Grants Capital Projects Fund**

The Grants Capital Projects Fund was created to finance capital improvements for the Town of Fairfax funded from federal and state grants. At the end of the current fiscal year, the restricted fund balance of the fund was \$6,559.

### **Fairfax Creek Restoration Fund**

The Fairfax Creek Restoration Fund was created to finance creek improvements for the Town of Fairfax funded primarily from FEMA. At the end of the current fiscal year, the unassigned fund balance of the fund was \$0.

### **Town Capital Projects Fund**

The Grants Capital Projects Fund was created to capital improvements for the Town of Fairfax funded primarily from General Fund revenues including Measure A and Measure I funds. At the end of the current fiscal year, the unassigned fund balance of the fund was \$ 0.

## ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

While the general economic outlook remains cautious, the Town will need to negotiate memoranda of understanding (MOU) with all its employee groups, as the current MOU's will expire in June 2013. Over the past several years the Town has made concerted effort to reduce expenditures including keeping one Police Officer position and one Administrative Assistant position vacant. Several positions have been consolidated in the Public Works Department including the Public Works Director/Town Manager. Town employees have also assisted the Town during the economic downturn by agreeing to pay an increasing percentage of the pension costs.

The Town ended the Fiscal Year 2011-12 in a positive fiscal situation, despite the devastating effect the 05-06 flood disaster had on the Town's physical and financial assets. The Town added a ½ cent sales tax which will last five years and is projected to raise sufficient funds to maintain a balanced budget. The improving housing market is also projected to help property tax revenues recover.

Despite projections of a State budget improving a slowly recovering economy, and the new revenues generated from the approved ½ cent sales tax, the Town plans to proceed over the near future with caution and mindfulness of the threats to its financial stability.

## REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, creditors and government regulators with a general overview of the Town's finances and to demonstrate the Town's accountability for the money it receives. Below is the contact address for questions about this report or requests for additional financial information.

Finance Director  
Town of Fairfax  
142 Bolinas Road  
Fairfax, CA 94930  
(415) 458-2350

TOWN OF FAIRFAX  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

ASSETS	<u>Governmental-Type Activities</u>
Cash and investments (Note 2)	\$2,715,879
Restricted cash and investments (Note 2)	197,494
Accounts receivable	314,551
Interest receivable	894
Taxes receivable	4,953
Deferred charges	93,509
Land and construction in progress (Note 4)	321,876
Capital assets, net of accumulated depreciation (Note 4)	<u>7,453,938</u>
Total Assets	<u>11,103,094</u>
LIABILITIES	
Accounts payable	135,616
Accrued payroll	163,894
Deposits	105,233
Interest payable	95,213
Compensated absences payable (Note 5):	
Due within one year	25,269
Due in more than one year	290,595
Claims payable (Note 9)	
Due within one year	135,965
Net OPEB liability (Note 8)	195,074
Long-term debt (Note 5):	
Due within one year	313,653
Due in more than one year	6,395,446
Unamortized bond premium	<u>109,465</u>
Total Liabilities	<u>7,965,423</u>
NET ASSETS (Note 1K)	
Invested in capital assets, net of related debt	<u>1,146,719</u>
Restricted for:	
Special projects	7,051
Capital projects	442,181
Debt service	<u>829,692</u>
Total Restricted Net Assets	<u>1,278,924</u>
Unrestricted	<u>712,028</u>
Total Net Assets	<u><u>\$3,137,671</u></u>

See accompanying notes to financial statements

TOWN OF FAIRFAX  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
<b>Governmental Activities:</b>				
General government	\$1,302,252	\$476,125	\$26	(\$826,101)
Public safety	4,775,121	66,395	100,000	(4,608,726)
Public works	761,888	85	274,728	(487,075)
Planning and building	548,173	502,446		(45,727)
Parks and recreation	379,470	78,919		(300,551)
Interest and fiscal charges	423,211			(423,211)
<b>Total Governmental Activities</b>	<b>\$8,190,115</b>	<b>\$1,123,970</b>	<b>\$374,754</b>	<b>(6,691,391)</b>
<b>General revenues:</b>				
Property taxes				4,588,203
Special assessments				608,781
Sales taxes				633,229
Other taxes				557,072
Investment earnings				5,462
Miscellaneous				140,762
<b>Total General Revenues</b>				<b>6,533,509</b>
Change in Net Assets				(157,882)
Net Assets-Beginning				3,295,553
Net Assets-Ending				<b>\$3,137,671</b>

See accompanying notes to financial statements

TOWN OF FAIRFAX  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2012

	<u>General Fund</u>	<u>Measure K Special Revenue</u>	<u>Grants Capital Projects</u>	<u>Fairfax Creek Restoration</u>
<b>ASSETS</b>				
Cash and investments (Note 2)	\$1,733,564	\$63,212		
Restricted cash and investments (Note 2)		189,417		
Receivables (net of allowances):				
Accounts	192,954		\$113,160	
Taxes	4,953			
Interest	811	83		
Due from other funds (Note 3A)	<u>76,271</u>			
<b>Total Assets</b>	<u><u>\$2,008,553</u></u>	<u><u>\$252,712</u></u>	<u><u>\$113,160</u></u>	
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$66,389		\$56,905	
Accrued payroll	162,894			
Deposits payable	105,233			
Deferred revenue	495			
Due to other funds (Note 3A)			<u>49,696</u>	
<b>Total Liabilities</b>	<u>335,011</u>		<u>106,601</u>	
<b>Fund Balances (Note 1L):</b>				
Restricted		\$252,712	6,559	
Unassigned	<u>1,673,542</u>			
<b>Total Fund Balances</b>	<u>1,673,542</u>	<u>252,712</u>	<u>6,559</u>	
<b>Total Liabilities and Fund Balances</b>	<u><u>\$2,008,553</u></u>	<u><u>\$252,712</u></u>	<u><u>\$113,160</u></u>	

See accompanying notes to financial statements

Town Capital Projects	Non-Major Governmental Funds	Total
\$1,195	\$917,908	\$2,715,879
8,077		197,494
	8,437	314,551
		4,953
		894
		76,271
<u>\$9,272</u>	<u>\$926,345</u>	<u>\$3,310,042</u>
\$9,272	\$2,555	\$135,121
	1,000	163,894
		105,233
		495
	26,575	76,271
<u>9,272</u>	<u>30,130</u>	<u>481,014</u>
	914,777	1,174,048
	(18,562)	1,654,980
	896,215	2,829,028
<u>\$9,272</u>	<u>\$926,345</u>	<u>\$3,310,042</u>

TOWN OF FAIRFAX  
 Reconciliation of the  
 GOVERNMENTAL FUNDS - BALANCE SHEET  
 with the  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2012

Total fund balances reported on the governmental funds balance sheet \$2,829,028

Amounts reported for Governmental Activities in the Statement of Net Assets  
 are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and  
 therefore are not reported in the Governmental Funds. 7,775,814

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not  
 reported in the Funds:

Long-term debt	(6,709,099)
Unamortized bond premium	(109,465)
Interest payable	(95,213)
Deferred charges	93,509
Claims payable	(135,965)
Net OPEB asset	(195,074)
Compensated absences	<u>(315,864)</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$3,137,671

See accompanying notes to financial statements

TOWN OF FAIRFAX  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2012

	General Fund	Measure K Special Revenue	Grants Capital Projects	Fairfax Creek Restoration
<b>REVENUES</b>				
Property taxes	\$3,472,502			
Special assessments	608,781			
Sales taxes	580,644			
Permits licenses and fees	564,530			
Fines, forfeitures and penalties	60,690			
From other agencies	604,027		\$240,588	
Motor vehicle in-lieu fees	10,166			
Franchise fees	362,963			
Services charges	56,868			
Use of money and property	34,812	\$349		
Other revenue	59,043			
<b>Total Revenues</b>	<b>6,415,026</b>	<b>349</b>	<b>240,588</b>	
<b>EXPENDITURES</b>				
Current:				
General government	1,170,144			
Public safety	4,289,781			
Public works	493,568	22,779		
Planning and building	557,089			
Parks and recreation	291,270			
Capital outlay	140,814		182,089	
Debt service:				
Principal	76,736			
Interest and fiscal charges	22,847			
Bond issuance cost				
<b>Total Expenditures</b>	<b>7,042,249</b>	<b>22,779</b>	<b>182,089</b>	
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(627,223)</b>	<b>(22,430)</b>	<b>58,499</b>	
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds from the issuance of debt				
Payment to bond escrow				
Bond premium				
Capital lease financing	117,099			
Transfers in (Note 3B)	602,500	189,417	249,503	\$475,889
Transfers out (Note 3B)	(1,082,340)			
<b>Total Other Financing Sources (Uses)</b>	<b>(362,741)</b>	<b>189,417</b>	<b>249,503</b>	<b>475,889</b>
<b>Net change in fund balance</b>	<b>(989,964)</b>	<b>166,987</b>	<b>308,002</b>	<b>475,889</b>
<b>FUND BALANCE (DEFICIT)</b>				
Beginning of the year	2,663,506	85,725	(301,443)	(475,889)
End of the year	<u>\$1,673,542</u>	<u>\$252,712</u>	<u>\$6,559</u>	

See accompanying notes to financial statements

Town Capital Projects	Non-major Governmental Funds	Total
		\$3,472,502
	\$522,845	1,131,626
		580,644
		564,530
		60,690
	788,584	1,633,199
		10,166
		362,963
	46,879	103,747
	1,734	36,895
\$3	16,225	75,271
<u>3</u>	<u>1,376,267</u>	<u>8,032,233</u>
		1,170,144
		4,289,781
		516,347
		557,089
	89,852	381,122
32,050	15,825	370,778
	199,000	275,736
16,600	313,912	353,359
	128,710	128,710
<u>48,650</u>	<u>747,299</u>	<u>8,043,066</u>
<u>(48,647)</u>	<u>628,968</u>	<u>(10,833)</u>
	2,880,000	2,880,000
	(2,687,835)	(2,687,835)
	125,962	125,962
		117,099
184,599	329,349	2,031,257
	(948,917)	(2,031,257)
<u>184,599</u>	<u>(301,441)</u>	<u>435,226</u>
135,952	327,527	424,393
<u>(135,952)</u>	<u>568,688</u>	<u>2,404,635</u>
	<u>\$896,215</u>	<u>\$2,829,028</u>

TOWN OF FAIRFAX  
Reconciliation of the  
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS  
with the  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$424,393

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capitalized expenditures are therefore added back to fund balance	190,955
(Capitalized expenditures is the net of total capital outlay of \$370,778 and non-capitalized capital outlay expenditures of \$179,823)	
Depreciation expense is deducted from the fund balance	(539,640)
Loss on retirement is deducted from fund balance	(446)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	275,736
Issuance of long-term debt is deducted from fund balance	(2,880,000)
Payment to bond escrow agent is added back to fund balance	2,687,835
Capital lease financing is deducted from fund balance	(117,099)
Loss on refunding is deducted from fund balance	(17,835)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Deferred charges	(88,941)
Compensated absences	(19,821)
Net OPEB asset	(123,343)
Claims payable	10,652
Interest payable	32,831
Unamortized bond premium	6,841

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (\$157,882)

See accompanying notes to financial statements

TOWN OF FAIRFAX  
FIDUCIARY FUNDS  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2012

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments (Note 2)	<u>\$764</u>
Total Assets	<u><u>\$764</u></u>
<b>LIABILITIES</b>	
Special deposits	<u>\$764</u>
Total Liabilities	<u><u>\$764</u></u>

See accompanying notes to financial statements

**BASIC FINANCIAL STATEMENTS**

**Town of Fairfax**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2012**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Town of Fairfax (Town), California, have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

**A. Financial Reporting Entity**

The Town was incorporated in 1931 and is situated near the cities of San Anselmo and San Rafael in the North Bay of the San Francisco Bay Area. The Town operates under the Council-Manager form of government, incorporated under general law in 1931 and provides the following services: public safety (police), planning and building, public works and streets, park services, and general administration services.

The Town is governed by a five-member council elected by Town residents. The Town is legally separate and fiscally independent, which means it can issue debt, set and modify budgets and fees and sue or be sued. The accompanying basic financial statements include the financial activities of the Town, as the primary government.

**Blended Component Unit – The Fairfax Financing Authority**

The Fairfax Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital facilities within the Town. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the City and has the same governing body as the City, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the 2012 Series Debt Service Fund.

**B. Basis of Accounting and Measurement Focus**

The accounts of the Town are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

**Government-Wide Financial Statements**

The Town's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of the governmental activities for the Town, the primary government, accompanied by a total column. Fiduciary activities of the Town are not included in these statements.

These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets and related current year infrastructure asset additions and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**1. SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

***B. Basis Accounting and Measurement Focus, (Continued)***

Certain types of transactions are reported as program revenues for the Town and are presented in the following two categories:

- Charges for services
- Operating grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. The following inter fund activities have been eliminated:

- Due to/from other funds
- Transfers in/out

The Town applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) and Statements Interpretations, Accounting Principles Board (APB) opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure.

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. The Town has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus. Accordingly, only current assets and current liabilities generally are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financial sources) and decreases (expenditures and other financial uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property taxes, charges for services, federal and state grants, sales tax, and interest. Expenditures are recognized in the accounting period in which the related fund liability is incurred.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**1. SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

***B. Basis Accounting and Measurement Focus, (Continued)***

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

**Fiduciary Fund Financial Statements**

Fiduciary fund financial statements normally include a Statement of Net Assets and a Statement of Changes in Fiduciary Net Assets. The Town's fiduciary funds represent agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. As a result, a statement of Changes in Fiduciary Net Assets is not presented in this report.

***C. Recognition of Interest Liability***

In the government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental activities.

In the fund financial statements, interest payable on long-term debt is recognized as the liability is incurred.

***D. Use of Restricted and Unrestricted Net Assets***

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Town's policy is to apply restricted net assets first.

***E. Cash, Cash Equivalents and Investments***

The Town pools cash and investments from all sources, for the purpose of increasing income through investment activities. Interest income on investments is allocated on the basis of average month-end cash and investment balances in each fund. Cash and cash equivalents represent cash and investments and restricted cash and investments with an original maturity term of three months or less.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**1. SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

***F. Capital Assets***

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Town policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings	50 years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years
Infrastructure	20-65 years

Assets are grouped by asset type into one of the following accounts – land, land improvements, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), buildings (and improvements), machinery and equipment, lease improvements, software, and construction in progress.

The Town defines infrastructure as the basic physical assets that allow the Town to function. The assets include streets and park lands. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

***G. Compensated Absences***

**Government-Wide Financial Statements**

For governmental activities, compensated absences are recorded as incurred and the related expenses and liabilities are recorded in the Government-Wide Financial Statements.

**Fund Financial Statements**

In governmental funds, compensated absences are recorded as expenditures in the years paid, as it is the Town's policy to liquidate any unpaid compensated absences at June 30 from future resources, rather than currently available financial resources.

***H. Property Tax Levy Collection and Maximum Rates***

The State of California (State) Constitution Article XIII A provides that the combined maximum property tax rate on any given property may not exceed one percent (1%) of its assessed value unless an additional amount for general obligation debt has been approved by voters. Assessed value is calculated at 100% of market value as defined by Article XIII A and may be adjusted by no more than two percent (2%) per year unless the property is sold, transferred, or improved. The State Legislature has determined the method of distribution of receipts from a one percent (1%) tax levy among the counties, cities, school districts, and other districts.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**1. SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

***H. Property Tax Levy Collection and Maximum Rates, (Continued)***

Marin County assesses, bills for, and collects property taxes as follows:

	Secured	Unsecured
Lien dates	January 1	January 1
Levy dates	July 1	July 1
Due dates	50% on November 1 and 50% on February 1	July 1
Delinquent as of	December 10 (for November) April 10 (for February)	August 31

The term “unsecured” refers to taxes on personal property other than real estate, land, and buildings. These taxes are secured by liens on the property being taxed.

Property taxes levied are recorded as revenue when received in the fiscal year of levy because of the adoption of the “alternate method of property tax distribution,” known as the Teeter Plan, by the Town and the County of Marin. The Teeter Plan authorizes the auditor-controller of the County of Marin to allocate 100% of the secured property taxes billed, but not yet paid. The County of Marin remits tax monies to the Town in four installments, as follows:

- 55% remitted on December 15
- 40% remitted on April 15
- 4.5% remitted on June 30
- 0.5% remitted on July 30

***I. Post Employment Benefits Other than Pensions***

The Town provides post-retirement health care benefits to management and miscellaneous employees starting at 10 years of service and increasing the contribution with years of service as required by current association and management agreements. The Town records premium payments on a “pay-as-you-go” basis.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**1. SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

**J. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires Town management to make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

**K. Net Assets**

**Government-Wide Financial Statements**

In the government-wide financial statements, net assets are classified in the following categories:

*Invested in Capital Assets, Net of Related Debt* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

*Restricted Net Assets* – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

*Unrestricted Net Assets* – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

**L. Fund Balances**

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund’s cash and receivables, less its liabilities.

The Town’s fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which requires the Town to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Town prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

*Nonspendables* represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then Nonspendable amounts are required to be presented as a component of the applicable category. As of June 30, 2012 the Town does not have any nonspendable fund balances.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**1. SIGNIFICANT ACCOUNTING POLICIES, (Continued)**

*Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

*Committed* fund balances have constraints imposed by formal action of the Town Council which may be altered only by formal action of the Town Council. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources. As of June 30, 2012 the Town does not have any committed fund balances.

*Assigned* fund balances are amounts constrained by the Town's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Town Council or its designee and may be changed at the discretion of the Town Council or its designee. This category includes encumbrances; Nonspendables, when it is the Town's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed. As of June 30, 2012, the Town does not have any assigned fund balances.

*Unassigned* fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

Detailed classifications of the Town's Fund Balances, as of June 30, 2012, are below:

Fund Balance Classifications	General Fund	Measure K Special Revenue	Grants Capital Projects	Non-Major Governmental Funds	Total
<b>Restricted for:</b>					
Measure K projects		\$252,712			\$252,712
Special projects			\$6,559	\$85,085	91,644
Debt service				829,692	829,692
<b>Total Restricted Fund Balances</b>		<u>252,712</u>	<u>6,559</u>	<u>914,777</u>	<u>1,174,048</u>
<b>Unassigned:</b>					
General Fund	\$1,673,542				1,673,542
Other governmental fund deficit residuals				(18,562)	(18,562)
<b>Total Unassigned Fund Balances</b>	<u>1,673,542</u>			<u>(18,562)</u>	<u>1,654,980</u>
<b>Total Fund Balances</b>	<u>\$1,673,542</u>	<u>\$252,712</u>	<u>\$6,559</u>	<u>\$896,215</u>	<u>\$2,829,028</u>

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**2. CASH AND INVESTMENTS**

The Town maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the Town invests to enhance interest earnings. The pooled interest earned is allocated to the funds monthly, based on average daily cash and investment balances in these funds.

**A. Summary of Cash and Investments**

The following is a summary of cash and investments at June 30, 2012:

	Governmental Activities	Fiduciary Funds Statement of Net Assets	Total
Cash and investments	\$2,715,879	\$764	\$2,716,643
Restricted cash and investments	197,494		197,494
Grand Total	<u>\$2,913,373</u>	<u>\$764</u>	<u>\$2,914,137</u>

Cash and investments were categorized as follows at June 30, 2012:

	Credit Quality Ratings	Fair Value	Days to Maturity
<b>Town Treasury Deposits:</b>			
Deposits	Not Rated	\$142,828	N/A
Certificate of Deposit	Not Rated	166,463	August 2, 2012
Petty cash	Not Rated	300	N/A
<b>Total Town Treasury Deposits</b>		<u>309,591</u>	
<b>Town Treasury Investments:</b>			
Local Agency Investment Funds	Not Rated	2,407,052	N/A
<b>Investments Held by Fiscal Agents</b>			
Money Market Mutual Fund	Not Rated	8,077	N/A
Money Market Mutual Fund	AAAm	189,417	56 days
<b>Total Investments with Fiscal Agent</b>		<u>197,494</u>	
<b>Total Cash and Investments</b>		<u>\$2,914,137</u>	

**B. Cash Deposits**

The California Government Code requires California banks and savings and loan associations to secure the Town's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Town's name.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**2. CASH AND INVESTMENTS, (Continued)**

***B. Cash Deposits, (Continued)***

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the Town's cash deposits. California law also allows institutions to secure Town deposits by pledging first trust deed mortgage notes having a value of 150% of the Town's total cash deposits. The Town may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The Town, however, has not waived the collateralization requirements.

The Town follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on a monthly basis to the various funds based on average daily cash and investment balances.

***C. Investments***

The Town is authorized by State statutes and in accordance with the Town's Investment Policy (Policy) to invest in the following:

- State Local Agency Investment Fund (LAIF)
- Insured and/or collateralized certificates of deposit

The Policy, in addition to State statutes, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall (1) have maximum maturity not to exceed five years, (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments.

In addition, investments of debt proceeds held by bond trustees are governed by the provisions of the debt agreements of the Town rather than the general provisions of the Town's Investment Policy.

***D. Risk Disclosures***

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Town's investment policy has 100% of the Town's investment portfolio mature in less than one year.

***E. Investments in Local Agency Investment Funds***

The Town is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Town reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are U.S. Treasuries, Federal Agency obligations, time deposits, negotiable certificates of deposits, commercial paper, corporate bonds, and security loans. At June 30, 2012, the average life on investment funds invested in LAIF was 268 days.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**3. INTERFUND TRANSACTIONS**

**A. Due To/From Other Funds**

At June 30, 2012, the Town had the following short-term receivables and payables:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
General Fund	Grants Capital Projects Fund	\$49,696
	Non-Major Governmental Funds	26,575
Total due to other funds		<u>\$76,271</u>

The Town has recorded due to/due from for all funds requiring cash at June 30, 2012.

**B. Interfund Transfers**

Transfers during the fiscal year ended June 30, 2012, were comprised of the following:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>
General Fund	Non-Major Governmental Funds	\$602,500
Measure K Special Revenue Fund	Non-Major Governmental Funds	189,417
Grants Capital Projects Fund	Non-Major Governmental Funds	108,000
	General Fund	141,503
Fairfax Creek Restoration		
Capital Projects Fund	General Fund	475,889
Town Capital Projects Fund	General Fund	135,599
	Non-Major Governmental Funds	49,000
Non-Major Governmental Funds	General Fund	329,349
Total Interfund Transfers		<u>\$2,031,257</u>

Transfers to the General Fund were for administrative costs and claims liabilities. Transfers to all other funds were for administrative costs, capital projects and special projects.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**4. CAPITAL ASSETS**

The Town has reported all capital assets including infrastructure in the Government-Wide Statement of Net Assets. The Town has elected to use the basic approach as defined by GASB Statement No. 34 for all infrastructure reporting, whereby depreciation expense and accumulated depreciation have been recorded.

Infrastructure includes roads, bridges, curbs, sidewalks, drainage systems, street and traffic lights, park improvements and other improvements.

**A. Government-Wide Financial Statements**

The following is a summary of capital assets for governmental activities:

	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Capital assets not being depreciated:					
Land	\$255,988				\$255,988
Construction in progress	755,462	\$56,424	(\$446)	(\$745,552)	65,888
Total capital assets not being depreciated	1,011,450	56,424	(446)	(745,552)	321,876
Capital assets being depreciated:					
Buildings	341,183				341,183
Other improvements	1,075,301	22,354		745,552	1,843,207
Vehicles	478,050	111,318			589,368
Machinery and equipment	718,318	859			719,177
Infrastructure	10,971,081				10,971,081
Total capital assets being depreciated	13,583,933	134,531		745,552	14,464,016
Less accumulated depreciation for:					
Buildings	(271,557)	(5,433)			(276,990)
Other improvements	(299,193)	(87,255)			(386,448)
Vehicles	(414,625)	(39,770)			(454,395)
Machinery and equipment	(515,261)	(43,141)			(558,402)
Infrastructure	(4,969,802)	(364,041)			(5,333,843)
Total accumulated depreciation	(6,470,438)	(539,640)			(7,010,078)
Net capital assets being depreciated	7,113,495	(405,109)		745,552	7,453,938
<b>Governmental activity capital assets, net</b>	<b>\$8,124,945</b>	<b>(\$348,685)</b>	<b>(\$446)</b>		<b>\$7,775,814</b>

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**4. CAPITAL ASSETS, (Continued)**

Depreciation expense for governmental activities depreciation expenses on capital assets for the year ended June 30, 2012, were as follows:

	Depreciation Expense
General Government	\$67,994
Public Works	420,423
Public Safety	51,223
<b>Total Governmental Activities</b>	<b>\$539,640</b>

**5. LONG-TERM OBLIGATIONS**

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2012:

Governmental Activity Debt:	Original Issue Amount	Balance June 30, 2011	Additions	Retirements	Balance June 30, 2012	Amount Due within One Year	Due in More than One Year
2002 General Obligation Bonds 3.70-5.50%, due 8/1/2027	\$3,000,000	\$2,735,000		(\$2,735,000)			
2006 General Obligation Bonds 4.00-6.00%, due 8/1/2027	4,955,000	1,590,000		(60,000)	\$1,530,000	\$65,000	\$1,465,000
2008 General Obligation Bonds 1.50-4.70% due 8/1/2025	2,231,000	2,094,000		(74,000)	2,020,000	78,000	1,942,000
2012 Revenue Bonds 2.00-3.00%, due 8/21/2027	2,880,000		\$2,880,000		2,880,000	105,000	2,775,000
<b>Capital Leases:</b>							
Panasonic Laptops	71,942	25,617	5,749	(15,683)	15,683	15,683	
Compellent Credit (server lease)	32,634	13,919		(6,869)	7,050	7,050	
Solar Panel Lease	249,000	199,200		(16,600)	182,600	16,600	166,000
Police Vehicle Lease	35,664		35,664	(17,089)	18,575	8,916	9,659
Ford Trucks	75,686		75,686	(20,495)	55,191	17,404	37,787
<b>Total Government Activity Debt - Gross</b>		<b>6,657,736</b>	<b>2,997,099</b>	<b>(2,945,736)</b>	<b>6,709,099</b>	<b>313,653</b>	<b>6,395,446</b>
Unamortized Premium		116,306		(6,841)	109,465		109,465
<b>Total Government Activity Debt - Net</b>		<b>\$6,774,042</b>	<b>\$2,997,099</b>	<b>(\$2,952,577)</b>	<b>\$6,818,564</b>	<b>\$313,653</b>	<b>\$6,504,911</b>

**2002 General Obligation Bonds (Refunded)**

In March 2012, the Town refunded the 2002 General Obligation Bonds using the proceeds from the 2012 General Obligation Refinancing Bonds. The proceeds were sufficient to pay off all principal and accrued interest on the 2002 General Obligation Bonds, along with the cost of issuance on the new issue. Therefore, as of June 30, 2012, the 2002 General Obligation Bonds have been paid in full. The refunding certificates were issued to reduce the total debt service payments over the next 16 years by \$505,741, which represents an estimated net present value (NPV) savings of \$401,912, or 15.05% of the outstanding bonds. As of June 30, 2012 these bonds were refunded. See note below.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**5. LONG-TERM OBLIGATIONS, (Continued)**

2006 General Obligation Bonds

2006 General Obligation Bonds in the principal amount of \$1,765,000 were issued on February 1, 2007, by the Town. These bonds were used to fund capital improvements to the community facilities, streets and storm drains within the Town. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. Bonds maturing on or after August 1, 2017, are subject to call on any interest payment date at par, plus a premium of 1% to 2% of the principal amount. Bonds maturing on August 1, 2026, are subject to early redemption without premium on or after August 1, 2025, from the mandatory sinking fund redemptions. Term bonds maturing August 1, 2031, are also subject to mandatory early redemptions from the sinking fund payments commencing August 1, 2028. The bonds are general obligations of the Town. Annual principal and interest payments on the bonds are expected to require less than 10 percent of property tax revenues.

2008 General Obligation Bonds

2008 General Obligation Bonds in the principal amount of \$2,231,000 were issued on August 21, 2008, by the Fairfax Financing Authority. These Bonds were used to repay the 2000 General Obligations Bonds as well as to fund certain capital projects within the Town. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. Bonds maturing on or after August 1, 2017, are subject to call on any interest payment date at par, plus a premium of 1% to 2% of the principal amount. Bonds maturing on August 1, 2026, are subject to early redemption without premium on or after August 1, 2025, from the mandatory sinking fund redemptions. Term bonds maturing August 1, 2031, are also subject to mandatory early redemptions from the sinking fund payments commencing August 1, 2028. The bonds are general obligations of the Town. Annual principal and interest payments on the bonds are expected to require less than 10 percent of property tax revenues.

2012 General Obligation Refunding Bonds

2012 General Obligation Refunding Bonds in the principal amount of \$2,880,000 were issued on March 1, 2012, by the Fairfax Financing Authority. These Bonds were used to repay the 2002 General Obligations Bonds as well as to fund certain capital projects within the Town. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. Bonds maturing on or after August 1, 2021, are subject to call on any interest payment date at par, plus a premium of 1% to 2% of the principal amount. Bonds maturing on August 1, 2022, are subject to early redemption without premium on or after August 1, 2021, from the mandatory sinking fund redemptions.

Capital Leases

The Town had entered into several capital leases as of June 30, 2012. Under these lease agreements, ownerships of the assets are passed to the Town at the end of the leases. Since these leases are in essence financing arrangements, the costs of the acquiring the assets and the amounts of the leases have been included in the Town's financial statements.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**5. LONG-TERM OBLIGATIONS, (Continued)**

*Debt Service Requirements*

The Town's annual debt service requirements through maturity are as follows:

For The Year Ending June 30	Principal	Interest	Total
2013	\$313,653	\$270,924	\$584,577
2014	300,895	230,395	531,290
2015	317,751	220,200	537,951
2016	321,600	208,727	530,327
2017	340,600	197,326	537,926
2018 - 2022	2,108,000	759,729	2,867,729
2023 - 2027	2,596,600	292,895	2,889,495
2028 - 2032	410,000	3,850	413,850
	<u>6,709,099</u>	<u>2,184,046</u>	<u>8,893,145</u>
Unamortized Premium	109,465		109,465
	<u>\$6,818,564</u>	<u>\$2,184,046</u>	<u>\$9,002,610</u>

*Compensated Absences*

Compensated absences include vacation and sick leave. It is the policy of the Town to pay 100% of the accumulated vacation leave when an employee retires or terminates. The Town recognizes the liability for its compensated absences in the governmental activities. The following is a summary of compensated absences transactions during the fiscal year ended June 30, 2012:

	<u>Governmental Activities</u>
Beginning Balance	\$296,043
Additions	51,154
Payments	<u>(31,333)</u>
Ending Balance	<u>\$315,864</u>
Current Portion	<u>\$25,269</u>

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**6. OTHER FUND DISCLOSURES**

*Expenditures over Appropriations*

The following funds had an excess of expenditures over appropriations, but had adequate resources to cover the excess:

	<u>Expenditures in Excess of Budget</u>
General Fund	\$27,924
Special Revenue Fund:	
Youth Recreation	15,451

*Deficit Fund Balance*

At June 30, 2012, the Measure F Special Revenue Fund had a deficit fund balance of \$18,562 and is expected to be recovered from future grant reimbursements.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**7. EMPLOYEE RETIREMENT PLANS**

Substantially all Town employees are eligible to participate in pension plans offered by California Public Employees Retirement System (CALPERS), an agent multiple employer defined benefit pension plan which acts as a common investment and administrative agent for its participating member employers. CALPERS provides retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. The Town's employees participate in the separate Safety (police) and Miscellaneous (all other). Benefit provisions under the Plans are established by State statute and Town ordinance. Benefits are based on years of credited service, equal to one year of full time employment. Funding contributions for the Plans are determined annually on an actuarial basis as of June 30 by CALPERS; the Town must contribute these amounts. The Town's labor contracts require it to pay employee contributions as well as its own. The Plans' provisions and benefits in effect at June 30, 2012, are summarized as follows:

	<u>Safety Tier 1</u>	<u>Safety Tier 2</u>	<u>Miscellaneous Tier 1</u>	<u>Miscellaneous Tier 2</u>
Benefit vesting schedule	5 years service	5 years service	5 years service	5 years service
Benefit payments	Monthly for life	Monthly for Life	Monthly for life	Monthly for life
Retirement age	50	55	55	55
Monthly benefits, as a % of annual salary	3%	2.4% - 3%	2.0% - 2.5%	1.426% - 2.418%
Required employee contribution rates	9%	9%	8%	7%
Required employer contribution rates	51.657%	21.802%	16.806%	10.518

\*Rates include amortization of side fund

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**7. EMPLOYEE RETIREMENT PLANS, (Continued)**

CALPERS determines contribution requirements using a modification of the Entry Age Normal Method. Under this method, the Town's total normal benefit cost for each employee from date of hire to date of retirement is expressed as a level percentage of the related total payroll cost. Normal benefit cost under this method is the level amount the employer must pay annually to fund an employee's projected retirement benefit. This level percentage of payroll method is used to amortize any unfunded actuarial liabilities. The actuarial assumptions used to compute contribution requirements are also used to compute the actuarially accrued liability. The Town uses the actuarially determined percentages of payroll to calculate and pay contributions to CALPERS. This results in no net pension obligations or unpaid contributions. Annual Pension Costs, representing the payment of all contributions required by CALPERS, for the last three fiscal years were as follows:

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2010	\$721,399	100%	\$0
June 30, 2011	545,959	100%	0
June 30, 2012	783,933	100%	0

CalPERS uses the market related value method of valuing the Plan's assets. An investment rate of return of 7.50% is assumed, including inflation at 3.00%. Annual salary increases are assumed to vary by duration of service. Changes in liability due to plan amendments, changes in actuarial assumptions, or changes in actuarial methods are amortized as a level percentage of payroll on a closed basis over twenty years. Investment gains and losses are accumulated as they are realized and amortized over a rolling thirty year period.

As required by State law, effective July 1, 2005, the Town's Safety and Miscellaneous Plans were terminated, and the employees in those plans were required by CALPERS to join new State-wide pools. One of the conditions of entry to these pools was that the Town true-up any unfunded liabilities in the former Plans, either by paying cash or by increasing its future contribution rates through a Side Fund offered by CALPERS. The Town satisfied its Safety and Miscellaneous Plans' unfunded liabilities by agreeing to contribute to the Side Funds through an addition to its normal contribution rates. As of the latest actuarial the balance of the Side Fund for Safety was \$1,834,712 which will be repaid over the next 8 years. The balance of the Side Fund for Miscellaneous was \$260,421 which will be repaid over the next 7 years.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**7. EMPLOYEE RETIREMENT PLANS, (Continued)**

The schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. CALPERS' latest actuarial value (which differs from market value) and funding progress for the State-wide pools are shown below:

*Safety Plan Tier 1:*

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$9,721,675,347	\$8,027,158,724	\$1,694,516,623	82.6%	\$973,814,168	174.0%
2010	10,165,475,166	8,470,235,152	1,695,240,014	83.3%	955,980,815	177.3%
2011	10,951,745,049	9,135,654,246	1,816,090,803	83.4%	949,833,090	191.2%

*Safety Plan Tier 2:*

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$1,802,882,330	\$1,520,081,328	\$282,801,002	84.4%	\$221,600,192	127.6%
2010	1,915,095,826	1,628,915,283	286,180,543	85.1%	224,562,008	127.4%
2011	2,061,923,933	1,759,286,797	302,637,797	85.3%	225,026,216	134.5%

*Miscellaneous Plan Tier 1:*

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$1,834,424,640	\$1,493,430,831	\$340,993,809	81.4%	\$355,150,151	96.0%
2010	1,972,910,641	1,603,482,152	369,428,489	81.3%	352,637,380	104.8%
2011	2,135,350,204	1,724,200,585	411,149,619	80.7%	350,121,750	117.4%

*Miscellaneous Plan Tier 2:*

Actuarial						
Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2009	\$3,104,798,222	\$2,758,511,101	\$346,287,121	88.8%	\$742,981,488	46.6%
2010	3,309,064,934	2,946,408,106	362,656,828	89.0%	748,401,352	48.5%
2011	3,619,835,876	3,203,214,899	416,620,977	88.5%	759,263,518	54.9%

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**8. OTHER PENSION EMPLOYMENT BENEFIT**

*Plan Description and Funding Policy*

The Town provides full health insurance benefits to employees who retire with at least 25 years of service (20 years in Management). The Town will pay the one-party Kaiser Basic premium for such retirees. For those with 10 or more years of service, there are partial benefits. For retirees not eligible for the premium-based benefit, the Town will pay the CalPers minimum employer contribution towards premiums, which is \$112 for fiscal year 2012. The cost of the benefits provided by the Plan is currently being paid along with the annual required contribution. The long-term strategy for funding the benefits provided under the Plan is currently being evaluated.

As of June 30, 2012, 8 participants were eligible to receive retirement health care benefits.

Concurrent with implementing GASB Statement No. 45, the Town Council passed a resolution to participate the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB. CERBT is administrated by CALPERS, and is managed by an appointed board not under the control of Town Council. This Trust is not considered a component unit by the Town and has been excluded from these financial statements. The CERBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained from the California Public Employees' Retirement System, CERBT, P.O. Box 942703, Sacramento, CA 94229-2703.

*Actuarial Assumptions*

The Town's Policy is to prefund these benefits by accumulating assets with CERBT discussed above pursuant to Council Resolution 09-48.

The annual required contribution (ARC) was determined as part of a June 30, 2011 actuarial valuation using the projected unit credit actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.75% investment return; (b) 3.25% projected annual salary increase, (c) 3% annual general inflation rate and (d) 5% health care cost trend rate increases, starting 2012.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the Town and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the Town and plan members to that point. The actuarial methods and assumptions used include techniques that smooth the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Actuarial calculations reflect a long-term perspective and actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to revision at least once every three years as results are compared to past expectations and new estimates are made about the future. The Town's OPEB unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll using a closed thirty year amortization period.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

**8. OTHER PENSION EMPLOYMENT BENEFIT, (Continued)**

*Funding Progress and Funded Status*

The Town's Net OPEB Obligation (NOO) is recorded in the Statement of Net Assets and is calculated as follows:

Annual required contribution (ARC)	\$134,600
Interest on net OPEB asset	(3,688)
Adjustments on OPEB asset	<u>2,991</u>
Annual OPEB cost	133,903
Contributions made	<u>(10,560)</u>
(Decrease) increase in net OPEB obligation	123,343
Net OPEB Obligation (Asset) at June 30, 2011	<u>71,731</u>
<b>Net OPEB obligation Liability at June 30, 2012</b>	<b><u><u>\$195,074</u></u></b>

The Plan's annual required contributions and actual contributions for the three years ended June 30 are set forth below:

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Pension Cost Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
6/30/10	\$120,600	\$139,055	115%	(\$18,455)
6/30/11	101,163	10,977	11%	71,731
6/30/12	133,903	10,560	8%	195,074

The Schedule of Funding Progress presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. Trend data from the actuarial studies are presented below:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Projected Unit Credit Cost Actuarial Accrued Liability (B)</u>	<u>Unfunded (Overfunded) Actuarial Accrued Liability (A - B)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A - B)/C]</u>
6/30/10	\$0	\$958,500	\$958,500	0.00%	\$2,626,577	36.49%
6/30/11	252,200	1,276,500	1,024,300	19.76%	2,481,924	41.27%

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**9. RISK MANAGEMENT**

**A. Risk Pool**

The Town is a participant in the Bay Cities Joint Powers Insurance Authority (BCJPIA), which covers general liability claims in an amount up to \$1,000,000. The Town has a deductible or uninsured liability of up to \$50,000 per claim. Once the Town's deductible is met, BCJPIA becomes responsible for payment of all claims up to the limit. Other coverage includes excess insurance for claims over \$1,000,000.

The Town also participates in the BCJPIA for worker's compensation insurance. BCJPIA participates in the Local Agency Worker's Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool which in turn purchases coverage above \$1,000,000. The Town has a deductible or uninsured liability of up to \$150,000 per claim. BCJPIA pool covers claims from \$150,000 to \$1,000,000. Claims from \$1,000,000 up to statutory are covered by LAWCX. Once the Town's deductible is met, then BCJPIA Plan becomes responsible for payment of all claims up to the limit.

Each risk pool is governed by a board consisting of representatives from member municipalities. The board controls the operations of each risk pool, including selection of management and approval of operating budgets, independent of any influence by member municipalities beyond their representation on the board. The Town's contributions to each risk pool equal the ratio of the Town's payroll to the total payrolls of all entities participating in the same layer of each program, in each program year. Actual surpluses or losses are shared according to a formula developed from overall loss costs and spread to member entities on a percentage basis after a retrospective rating.

**B. Liability for Uninsured Claims**

Municipalities are required to record their liability for uninsured claims and to reflect the current portion of this liability as an expenditure in their financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for the deductible or uninsured portion of these claims. The Town's liability for uninsured claims based on claims experience was computed as follows:

	June 30	
	2012	2011
Balance at beginning of year	\$146,617	\$196,267
Change in liability for prior fiscal year claims and claims incurred but not reported	(327,724)	338,124
Claims paid	317,072	(387,774)
Balance at end of year	<u>\$135,965</u>	<u>\$146,617</u>
Due in one year	<u>\$135,965</u>	<u>\$146,617</u>

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**10. JOINT VENTURES**

The Town participates in several active joint ventures through formally organized and separate entities established under the Joint Exercise of Powers Act of the State of California. As separate legal entities, these entities exercise full powers and authorities within the scope of the related Joint Powers Agreements (JPA), including selection of management and approval of operating budgets, independent of any influence by each member beyond representation on each Board. Obligations and liabilities of these joint ventures are not the Town's responsibility, and the Town does not have an equity interest in the assets of each joint venture except upon dissolution.

**A. *Ross Valley Fire Service***

The Ross Valley Fire Service (Fire Service) was established under a 1982 Joint Exercise of Powers Agreement between the Town of Fairfax and the Town of San Anselmo for the purpose of providing fire protection, emergency medical, and related services within the Fairfax and San Anselmo area. Members of the Fire Service pay their pro rata share of the total annual contributions. Financial statements for the Fire Service may be obtained by mailing a request to the Ross Valley Fire Service, 777 San Anselmo Avenue, San Anselmo, California 94960.

**B. *Ross Valley Paramedic Authority (Authority)***

The Authority is a joint powers agreement formed on December 14, 1982, by the Town of Fairfax, Town of Corte Madera, Kentfield Fire Protection District, Town of Larkspur, County of Marin, Town of Ross, Town of San Anselmo, and Sleepy Hollow Fire Protection District for the purpose of providing paramedic services. The Authority is controlled by an eight member board consisting of a member from each entity. Services are provided by the County of Marin Fire District to the Authority. The Authority's operations are financed by its members, through property taxes on each residential unit and commercial property. The books and records are maintained by the Town of Larkspur. Financial statements for the Ross Valley Paramedic Authority may be obtained by mailing a request to the Ross Valley Paramedic Authority, 4000 Magnolia Avenue, Larkspur, California 94939.

**C. *Marin County Cable Rate Regulation Authority (Cable Authority)***

The Cable Authority was established as a Joint Powers Authority between the towns of Fairfax, Ross, San Anselmo, Tiburon and Corte Madera, and the cities of Larkspur, Mill Valley, Sausalito, San Rafael, and Belvedere, and the County of Marin. The Agreement provides for the regulation of rates for certain cable television services and equipment pursuant to the Cable Television Consumer Protection and Competition Act of 1992. The financial responsibility of each member is based on the number of cable television subscribers. Audited financial statements may be obtained by mailing a request to the Marin Telecommunications Agency at Marin County Auditor-Controller, County of Marin, 3501 Civic Center Drive, Room 225, San Rafael, CA 94903.

**D. *Marin General Services Authority (MGSA)***

The MGSA was established on April 26, 2005, to replace the Marin Street Light Acquisition Authority. All the original members of the Marin Street Light Acquisition Authority are eligible for membership. The Authority is established to finance, implement, and manage various municipal services with the member agencies including taxicab regulation and information management services. All assets and funds of the Marin Street Light Acquisition Authority were transferred to the MGSA. The financial responsibility of each member is based on a relative population and assessed value formula. Audited financial statements may be obtained by a request to the Marin General Services Authority at Marin County Auditor-Controller, County of Marin, 3501 Civic Center Drive, Room 225, San Rafael, CA 94903.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2012**

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**10. JOINT VENTURES, (Continued)**

***E. Marin Emergency Radio Authority (MERA)***

The Town is a member of MERA, along with the County of Marin and twenty-four local government agencies. The purpose of MERA is to plan, finance, implement, own, and operate a multi-jurisdictional and countywide public safety and emergency radio system. To finance this system, in 1999 MERA issued approximately \$27 million in revenue bonds. Audited financial statements may be obtained by a request to the Marin Emergency Radio Authority at Marin County Auditor-Controller, County of Marin, 3501 Civic Drive, Room 225, San Rafael, CA 94903.

***F. Marin County Major Crimes Task Force***

The Marin County Major Crimes Task Force, established in 1977, is a specialized undercover law enforcement unit focused on drug related and major criminal activity throughout the County of Marin. The Task Force Oversight Committee is comprised of ten cities and the Marin County Sheriff.

**11. COMMITMENTS AND CONTINGENCIES**

The Town is subject to litigation arising in the normal course of business. In the opinion of the Town Attorney there is no pending litigation which is likely to have a material adverse effect on the financial position of the Town.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Town of Fairfax**  
**Required Supplementary Information**  
**For the year ended June 30, 2012**

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**1. BUDGETARY PRINCIPLES**

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

- By June 30, the Town Manager submits to the Town Council a proposed operating budget for the year commencing July 1. The operating budget includes proposed expenditures and the means of financing them. Continuing appropriations are rebudgeted by the Town Council as part of the adoption of subsequent year's budgets.
- Public hearings are conducted to obtain taxpayer comments.
- The budget is legally enacted through passage of a resolution during a Town Council meeting in the month of September.
- The Town Manager is authorized to transfer budgeted amounts within an activity, within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Council.
- Formal budgeting is employed as a management control device during the year for the general, certain special revenue and debt service funds.
- Budgets for the general, special revenue and debt service funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except Special Police Special Revenue Fund.
- Budgets for capital projects funds are adopted on a project-life basis.

Budgeted amounts are as originally adopted or as amended by the Town Council. Budget amendments were not material in relation to the original appropriations.

Under encumbrance accounting, purchase orders, contracts and other commitments for expenditures are recorded to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary accounting. Since encumbrances do not yet constitute expenditures or liabilities, encumbrances outstanding at year-end are reported as reservations of fund balances.

TOWN OF FAIRFAX  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$3,476,888	\$3,476,888	\$3,472,502	(\$4,386)
Special assessments	621,520	621,520	608,781	(12,739)
Sales tax	435,360	435,360	580,644	145,284
Permits licenses and fees	105,000	422,750	564,530	141,780
Fines, forfeitures and penalties	54,500	54,500	60,690	6,190
From other agencies	579,268	586,268	604,027	17,759
Motor vehicle in-lieu fees			10,166	10,166
Franchise fees	342,000	342,000	362,963	20,963
Services charges	31,100	51,100	56,868	5,768
Use of money and property	28,000	49,000	34,812	(14,188)
Other revenue	34,100	38,761	59,043	20,282
<b>Total Revenues</b>	<b>5,707,736</b>	<b>6,078,147</b>	<b>6,415,026</b>	<b>336,879</b>
<b>EXPENDITURES</b>				
Current:				
General government	1,384,813	1,309,072	1,170,144	138,928
Public safety	4,386,298	4,386,298	4,289,781	96,517
Public works and facilities	438,132	413,628	493,568	(79,940)
Planning and building	553,381	553,882	557,089	(3,207)
Parks and recreation	206,198	266,238	291,270	(25,032)
Capital outlay		8,000	140,814	(132,814)
Debt service:				
Principal		57,000	76,736	(19,736)
Interest and fiscal charges		20,207	22,847	(2,640)
<b>Total Expenditures</b>	<b>6,968,822</b>	<b>7,014,325</b>	<b>7,042,249</b>	<b>(27,924)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(1,261,086)</b>	<b>(936,178)</b>	<b>(627,223)</b>	<b>308,955</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Capital lease financing			117,099	117,099
Transfers in	2,303,016	2,361,016	602,500	(1,758,516)
Transfers (out)	(1,755,716)	(1,705,716)	(1,082,340)	623,376
<b>Total other financing sources (uses)</b>	<b>547,300</b>	<b>655,300</b>	<b>(362,741)</b>	<b>(1,018,041)</b>
<b>Net change in fund balance</b>	<b>(\$713,786)</b>	<b>(\$280,878)</b>	<b>(989,964)</b>	<b>(\$709,086)</b>
<b>FUND BALANCE</b>				
Beginning of year			2,663,506	
End of year			<b>\$1,673,542</b>	

TOWN OF FAIRFAX  
 MEASURE K SPECIAL REVENUE FUND  
 SCHEDULE OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 FOR THE YEAR ENDED JUNE 30, 2012

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
From other Agencies	\$84,000	\$84,000		(\$84,000)
Use of money and property			\$349	349
<b>Total Revenues</b>	<b>84,000</b>	<b>84,000</b>	<b>349</b>	<b>(83,651)</b>
<b>EXPENDITURES:</b>				
Current:				
Public works and facilities	84,000	84,000	22,779	61,221
<b>Total Expenditures</b>	<b>84,000</b>	<b>84,000</b>	<b>22,779</b>	<b>61,221</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>			<b>(22,430)</b>	<b>(22,430)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in			189,417	189,417
<b>Total other financing sources (uses)</b>			<b>189,417</b>	<b>189,417</b>
<b>Net change in fund balance</b>			<b>166,987</b>	<b>\$166,987</b>
<b>FUND BALANCE</b>				
Beginning of the year			85,725	
End of year			<b>\$252,712</b>	

**SUPPLEMENTARY INFORMATION**

TOWN OF FAIRFAX  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEETS  
JUNE 30, 2012

SPECIAL REVENUE FUNDS					
	Special Police	Youth Recreation	Measure I	Gas Tax	Open Space
<b>ASSETS</b>					
Cash and investments	\$6,902	\$3,458		\$26,049	\$11,424
Accounts receivable			\$8,013		
<b>Total Assets</b>	<b>\$6,902</b>	<b>\$3,458</b>	<b>\$8,013</b>	<b>\$26,049</b>	<b>\$11,424</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable		\$2,309			
Accrued payroll		1,000			
Due to other funds			\$26,575		
<b>Total Liabilities</b>		<b>3,309</b>	<b>26,575</b>		
<b>Fund balances:</b>					
Restricted	\$6,902	149		\$26,049	\$11,424
Unassigned			(18,562)		
<b>Total Fund Balances</b>	<b>6,902</b>	<b>149</b>	<b>(18,562)</b>	<b>26,049</b>	<b>11,424</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$6,902</b>	<b>\$3,458</b>	<b>\$8,013</b>	<b>\$26,049</b>	<b>\$11,424</b>

CAPITAL PROJECTS FUNDS		DEBT SERVICE FUNDS					
Emergency Watershed Protection	Storm Capital Projects Fund	Measure K 2000 Series	2002 Series	2006 Series	2008 Series	2012 Series	Total
	\$40,807	\$3,970	\$369,246 424	\$182,950	\$273,102		\$917,908 8,437
	\$40,807	\$3,970	\$369,670	\$182,950	\$273,102		\$926,345
	\$246						\$2,555 1,000 26,575
	246						30,130
	40,561	\$3,970	\$369,670	\$182,950	\$273,102		914,777 (18,562)
	40,561	3,970	369,670	182,950	273,102		896,215
	\$40,807	\$3,970	\$369,670	\$182,950	\$273,102		\$926,345

TOWN OF FAIRFAX  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENTS OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2012

	SPECIAL REVENUE FUNDS				
	Special Police	Youth Recreation	Measure I	Gas Tax	Open Space
<b>REVENUES</b>					
Property taxes:					
Special assessments					
From other agencies	\$100,000		\$463,528	\$219,238	
Service charges		\$46,847			
Use of money and property		1,734			
Other revenue		16,225			
<b>Total Revenues</b>	<b>100,000</b>	<b>64,806</b>	<b>463,528</b>	<b>219,238</b>	
<b>EXPENDITURES</b>					
Current:					
Public safety					
Parks and recreation		89,852			
Capital outlay					\$400
Debt service:					
Principal					
Interest and fiscal charges					
Bond issuance cost					
<b>Total Expenditures</b>		<b>89,852</b>			<b>400</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>100,000</b>	<b>(25,046)</b>	<b>463,528</b>	<b>219,238</b>	<b>(400)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Proceeds from the issuance of debt					
Payment to bond escrow					
Bond premium					
Bond discount					
Transfers in		18,000			26,400
Transfers (out)	(100,000)		(475,000)	(184,500)	
<b>Total Other Financing Sources (Uses)</b>	<b>(100,000)</b>	<b>18,000</b>	<b>(475,000)</b>	<b>(184,500)</b>	<b>26,400</b>
<b>NET CHANGE IN FUND BALANCES</b>		<b>(7,046)</b>	<b>(11,472)</b>	<b>34,738</b>	<b>26,000</b>
<b>BEGINNING FUND BALANCES (DEFICITS)</b>	<b>6,902</b>	<b>7,195</b>	<b>(7,090)</b>	<b>(8,689)</b>	<b>(14,576)</b>
<b>ENDING FUND BALANCES (DEFICITS)</b>	<b>\$6,902</b>	<b>\$149</b>	<b>(\$18,562)</b>	<b>\$26,049</b>	<b>\$11,424</b>

CAPITAL PROJECT FUNDS		DEBT SERVICE FUNDS					Total Nonmajor Governmental Funds
Emergency Watershed Protection	Storm Capital Projects Fund	Measure K 2000 Series	2002 Series	2006 Series	2008 Series	2012 Series	
		\$8,251	\$201,628	\$149,327	\$163,639		\$522,845
		32	4,604	575	639		788,584
							46,879
							1,734
							16,225
		8,283	206,232	149,902	164,278		1,376,267
							89,852
	\$15,425						15,825
			65,000	60,000	74,000		199,000
		8,035	135,066	85,445	85,366		313,912
						\$128,710	128,710
	15,425	8,035	200,066	145,445	159,366	128,710	747,299
	(15,425)	248	6,166	4,457	4,912	(128,710)	628,968
						2,880,000	2,880,000
						(2,687,835)	(2,687,835)
						125,962	125,962
\$83,206	201,743						329,349
						(189,417)	(948,917)
83,206	201,743					128,710	(301,441)
83,206	186,318	248	6,166	4,457	4,912		327,527
(\$83,206)	(145,757)	3,722	363,504	178,493	268,190		568,688
	\$40,561	\$3,970	\$369,670	\$182,950	\$273,102		\$896,215

TOWN OF FAIRFAX  
 BUDGETED NON-MAJOR GOVERNMENTAL FUNDS  
 COMBINING SCHEDULES OF REVENUES, EXPENDITURES  
 AND CHANGES IN FUND BALANCES  
 BUDGET AND ACTUAL  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	YOUTH RECREATION			MEASURE I		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>						
From other agencies				\$465,000	\$463,528	(\$1,472)
Service charges	\$28,000	\$46,847	\$18,847			
Use of money and property		1,734	1,734			
Other revenue	32,389	16,225	(16,164)			
<b>Total Revenues</b>	60,389	64,806	4,417	465,000	463,528	(1,472)
<b>EXPENDITURES</b>						
Current:						
Parks and Recreation	74,401	89,852	(15,451)			
Capital outlay						
<b>Total Expenditures</b>	74,401	89,852	(15,451)			
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(14,012)	(25,046)	(11,034)	465,000	463,528	(1,472)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers (in)	18,000	18,000				
Transfers (out)				(465,000)	(475,000)	(10,000)
<b>Total other financing sources (uses)</b>	18,000	18,000		(465,000)	(475,000)	(10,000)
<b>NET CHANGE IN FUND BALANCES</b>	\$3,988	(7,046)	(\$11,034)		(11,472)	(\$11,472)
<b>BEGINNING FUND BALANCES (DEFICITS)</b>		7,195			(7,090)	
<b>ENDING FUND BALANCES (DEFICITS)</b>		\$149			(\$18,562)	

GAS TAX			OPEN SPACE			STORM CAPITAL PROJECTS FUND		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$212,400	\$219,238	\$6,838	\$1,000		(\$1,000)	\$48,631		(\$48,631)
			26,400		(26,400)			
212,400	219,238	6,838	27,400		(27,400)	48,631		(48,631)
			7,400		7,400			
			20,000	\$400	19,600	64,340	\$15,425	48,915
			27,400	400	27,000	64,340	15,425	48,915
212,400	219,238	6,838		(400)	(400)	(15,709)	(15,425)	284
(212,400)	(184,500)	27,900		26,400	26,400		201,743	201,743
(212,400)	(184,500)	27,900		26,400	26,400		201,743	201,743
	34,738	\$34,738		26,000	\$26,000	(\$15,709)	186,318	\$202,027
	(8,689)			(14,576)			(145,757)	
	\$26,049			\$11,424			\$40,561	

TOWN OF FAIRFAX  
 AGENCY FUNDS  
 STATEMENTS OF CHANGES IN ASSETS AND LIABILITIES  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012
<b><u>PAVILION RENOVATION</u></b>				
<b>ASSETS</b>				
Cash and investments		\$764		\$764
Total Assets		\$764		\$764
<b>LIABILITIES</b>				
Special deposits		\$764		\$764
Total Liabilities		\$764		\$764