



TOWN OF FAIRFAX

STAFF REPORT

March 4, 2015

TO: Mayor and Town Council

FROM: Michael Vivrette, Finance Director 

SUBJECT: Acceptance of Fiscal Year 2013-14 Audited Financial Statements

RECOMMENDATION

Accept Financial Statements and Independent Auditor's Report for FY13-14

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, 2014. 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 13-14 Financial Statements.

FISCAL IMPACT

The audit serves to give an independent professional opinion to fairness of the Town's financial statements at June 30, 2014. They have issued a "clean" opinion that the financial statements are free from material misstatement.

Financial activity for FY14 has been factored into the Fund balance carry forward in the current year Year's budget. The net result of the audit will be that the carry forward fund balance for the General Fund for FY14-15 is \$57,476 less than originally estimated.

ATTACHMENTS

Basic Financial Statements and Audit

Town of Fairfax

Fairfax, California

*Basic Financial Statements and
Independent Auditor's Report*

For the year ended June 30, 2014

Town of Fairfax

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying 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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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, 2014. 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 \$11,689,775, liabilities of \$7,608,799 and net assets of \$4,080,976 at June 30, 2014. This compares with assets of \$10,785,638, liabilities of \$7,855,794 and net assets of \$2,929,844 at June 30, 2013.
- 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 an increase in net assets of \$1,151,132 for the fiscal year ended June 30, 2014 as compared to a decrease of \$207,827 for the fiscal year ended June 30, 2013. Revenues for fiscal 2014 increased by \$1,668,953 from the prior year primarily due to increased sales tax & property revenue, increased operating grants, and increases in charges for services from the improving economy. Expenses for the same period increased by \$309,994, mainly as a result of increased expenditures general government, public safety, planning & building and interest on long term debt, offset by decreases in public works costs.
- The Town's long-term debt (including current portion & unamortized premium) totaled \$6,298,218 as of June 30, 2014, which includes the outstanding balance on the Measure K bonds. Additionally, the Town has accrued \$313,223 of non-current claims payable.

FUND HIGHLIGHTS

At the close of fiscal year 2014, the Town's governmental funds reported a combined ending fund balance of \$3,091,034 as compared to \$2,551,274 at June 30, 2013. The detailed components of Revenues and Expenditures can be found in the accompanying Statement of Revenues, Expenditures and Changes in Fund Balances.

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 20 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
- Measure K Capital Projects Fund

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
	2014	2013	
Cash and investments	\$ 3,096,627	\$ 2,645,428	17.1%
Capital assets, net	8,108,550	7,508,472	8.0%
Other assets	484,598	631,738	-23.3%
Total assets	11,689,775	10,785,638	8.4%
Current liabilities	1,310,581	1,326,208	-1.2%
Non-current liabilities	6,298,218	6,529,586	-3.5%
Total liabilities	7,608,799	7,855,794	-3.1%
Invested in capital assets, net	1,810,332	978,886	84.9%
Restricted	993,344	1,098,385	-9.6%
Unrestricted	1,277,300	852,573	49.8%
Net assets	\$ 4,080,976	\$ 2,929,844	39.3%

Net assets invested in capital assets (e.g. land, buildings, equipment, and infrastructure) of \$1,810,332 at the end of fiscal year 2014 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 \$993,344 at the end of fiscal 2014 represent resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets is available to finance day-to-day operations without constraints.

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 \$1,926,888.

General Fund revenue during the FY 2013-14 year totaled 7,462,904 which was more than the final budgeted amount by \$647,904, or 8.7%. This revenue increase primarily relates to the Town's projection of property & sales tax revenue, permits & licenses, and service charges was exceeded by the actual receipts.

General Fund expenditures for FY 2013-14 totaled \$7,605,181, and were higher than the final budgeted amount by \$174,215 or 2.3%. This is related to an increase in public safety, planning & building, and capital outlay expenditures; and a decrease in general government, public works and recreation expenses.

2008 Series Debt Service Fund

The 2008 Series Debt Service Fund provides debt service for the refunded 2002 series of Measure K General Obligation bonds which were issues to fund capital improvements to community facilities, streets, and storm drains within the town between 2000 and 2006. At the end of the current fiscal year, the unassigned fund balance of the fund was \$383,384.

2012 Series Debt Service Fund

The 2012 Series Debt Service Fund provides debt service for the refunded 2006 series of Measure K General Obligation bonds which were issues to fund capital improvements to community facilities, streets, and storm drains within the town between 2000 and 2006. At the end of the current fiscal year, the unassigned fund balance of the fund was \$387,496.

TOWN OF FAIRFAX
STATEMENT OF NET POSITION
JUNE 30, 2014

ASSETS	<u>Governmental-Type Activities</u>
Cash and investments (Note 2)	\$2,133,209
Restricted cash and investments (Note 2)	963,418
Accounts receivable	402,379
Interest receivable	873
Taxes receivable	81,346
Land and construction in progress (Note 4)	706,017
Depreciable capital assets, net of accumulated depreciation (Note 4)	<u>7,402,533</u>
Total Assets	<u>11,689,775</u>
LIABILITIES	
Accounts payable	301,305
Accrued payroll	170,224
Deposits	18,662
Interest payable	92,735
Compensated absences payable (Note 5):	
Due within one year	27,237
Due in more than one year	313,223
Claims payable (Note 9)	
Due within one year	166,475
Net OPEB liability (Note 8)	
Due in more than one year	220,720
Long-term debt (Note 5):	
Due within one year	352,813
Due in more than one year	5,849,622
Unamortized bond premium	<u>95,783</u>
Total Liabilities	<u>7,608,799</u>
NET POSITION (Note 1K)	
Net investment in capital assets	<u>1,810,332</u>
Restricted for:	
Special projects	25,329
Debt service	<u>968,015</u>
Total Restricted Net Position	<u>993,344</u>
Unrestricted	<u>1,277,300</u>
Total Net Position	<u><u>\$4,080,976</u></u>

See accompanying notes to financial statements

TOWN OF FAIRFAX
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014

	General Fund	2008 Series Debt Service	2012 Series Debt Service	Non-Major Governmental Funds	Total
ASSETS					
Cash and investments (Note 2)	\$1,973,412			\$159,797	\$2,133,209
Restricted cash and investments (Note 2)		\$383,384	\$382,899	197,135	963,418
Receivables (net of allowances):					
Accounts	276,402		4,697	121,280	402,379
Taxes	81,346				81,346
Interest	873				873
Due from other funds (Note 3A)	67,626				67,626
Total Assets	\$2,399,659	\$383,384	\$387,596	\$478,212	\$3,648,851
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$289,780		\$100	\$11,425	\$301,305
Accrued payroll	168,574			1,650	170,224
Deposits payable	14,417			4,245	18,662
Due to other funds (Note 3A)				67,626	67,626
Total Liabilities	472,771		100	84,946	557,817
Fund Balances (Note 1L):					
Nonspendable					
Restricted		\$383,384	387,496	222,442	993,322
Committed				224,887	224,887
Assigned				22	22
Unassigned	1,926,888			(54,085)	1,872,803
Total Fund Balances	1,926,888	383,384	387,496	393,266	3,091,034
Total Liabilities and Fund Balances	\$2,399,659	\$383,384	\$387,596	\$478,212	\$3,648,851

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, 2014

	General Fund	2008 Series Debt Service	2012 Series Debt Service	Non-major Governmental Funds	Total
REVENUES					
Property taxes	\$3,801,180	\$186,544	\$199,591		\$4,187,315
Special assessments	596,373			\$160,015	756,388
Sales taxes	1,093,028				1,093,028
Permits licenses and fees	583,090				583,090
Fines, forfeitures and penalties	102,153				102,153
From other agencies	674,333	1,927	2,062	1,684,556	2,362,878
Motor vehicle in-lieu fees	2,239				2,239
Franchise fees	352,370				352,370
Services charges	186,762			30,299	217,061
Use of money and property	33,661			13,255	46,916
Other revenue	37,715	34,970		78,427	151,112
Total Revenues	7,462,904	223,441	201,653	1,966,552	9,854,550
EXPENDITURES					
Current:					
General government	1,344,195				1,344,195
Public safety	4,664,196				4,664,196
Public works	519,646				519,646
Planning and building	581,496				581,496
Parks and recreation	271,235			133,670	404,905
Capital outlay	133,665			1,194,751	1,328,416
Debt service:					
Principal	84,670	87,000	98,500	65,000	335,170
Interest and fiscal charges	6,078	80,991	81,240	79,100	247,409
Total Expenditures	7,605,181	167,991	179,740	1,472,521	9,425,433
REVENUES OVER (UNDER) EXPENDITURES	(142,277)	55,450	21,913	494,031	429,117
OTHER FINANCING SOURCES (USES)					
Capital lease financing (Note 5)	110,643				110,643
Transfers in (Note 3)	565,516	3,970		742,947	1,312,433
Transfers out (Note 3)	(294,166)			(1,018,267)	(1,312,433)
Total Other Financing Sources (Uses)	381,993	3,970		(275,320)	110,643
Net change in fund balance	239,716	59,420	21,913	218,711	539,760
FUND BALANCE (DEFICIT)					
Beginning of the year	1,687,172	323,964	365,583	174,555	2,551,274
End of the year	<u>\$1,926,888</u>	<u>\$383,384</u>	<u>\$387,496</u>	<u>\$393,266</u>	<u>\$3,091,034</u>

See accompanying notes to financial statements

BASIC FINANCIAL STATEMENTS

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

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 2008 and 2012 Series Debt Service Funds.

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 Position and a Statement of Activities. These statements present summaries of the governmental activities for the Town, the primary government, accompanied by a total column.

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 deferred outflows of resources, and liabilities and deferred inflows of resources, including capital assets and related current year infrastructure asset additions and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. 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
For the year ended June 30, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Use of Restricted and Unrestricted Net Position

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

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
Vehicles	5-15 years
Machinery and equipment	5-20 years
Infrastructure	20-65 years

Assets are grouped by asset type into one of the following accounts – land, other improvements, infrastructure (e.g. roads, bridges, sidewalks, and similar items), buildings (and improvements), machinery and equipment, vehicles, 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.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

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 Position

Government-Wide Financial Statements

In the government-wide financial statements, net position is classified in the following categories:

Net Investment in Capital Assets – 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 Position – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Position – This amount is all net position that do not meet the definition of “net investment in capital assets” or “restricted net position.”

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.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Implementation of Governmental Accounting Standards Board Statements

GASB Statement No. 65 – In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The requirements of the Statement are effective for fiscal periods beginning after December 15, 2012. The Town has implemented GASB 65 and has expensed deferred charges which were previously reported as assets to the Statement of Net Position in prior years.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

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, 2014:

	Governmental Activities
Cash and investments	\$2,133,209
Restricted cash and investments	963,418
Grand Total	<u>\$3,096,627</u>

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

2. CASH AND INVESTMENTS (Continued)

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

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. 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, 2014, the average life on investment funds invested by LAIF was 232 days.

3. INTERFUND TRANSACTIONS

A. Due To/From Other Funds

At June 30, 2014, the General Fund had short-term receivables from Non-Major Governmental Funds in the amount of \$67,626. These amounts are expected to be repaid in the next fiscal year from future revenues.

B. Interfund Transfers

Transfers during the fiscal year ended June 30, 2014, were comprised of the following:

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount</u>
General Fund	Non-Major Governmental Funds	\$565,516
2008 Series Debt Service Fund	Non-Major Governmental Funds	3,970
Non-Major Governmental Funds	General Fund	294,166
	Non-Major Governmental Funds	448,781
Total Interfund Transfers		<u>\$1,312,433</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
For the year ended June 30, 2014

4. CAPITAL ASSETS (Continued)

Depreciation expense for governmental activities depreciation expenses on capital assets for the year ended June 30, 2014, were as follows:

	Depreciation Expense
General Government	\$43,105
Public Safety	34,484
Public Works	457,880
Total Governmental Activities	\$535,469

5. LONG-TERM OBLIGATIONS

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2014:

Governmental Activity Debt:	Original Issue Amount	Balance June 30, 2013	Additions	Retirements	Balance June 30, 2014	Amount Due within One Year	Due in More than One Year
2006 General Obligation Bonds 4.00-6.00%, due 8/1/2027	\$1,765,000	\$1,465,000		(\$65,000)	\$1,400,000	\$70,000	\$1,330,000
2008 General Obligation Revenue Bonds 1.50-4.70% due 8/1/2025	2,231,000	1,942,000		(87,000)	1,855,000	96,000	1,759,000
2012 Revenue Bonds 2.00-3.00%, due 8/21/2027	2,880,000	2,775,000		(98,500)	2,676,500	115,000	2,561,500
Capital Leases:							
Solar Panel Lease	249,000	166,000		(16,600)	149,400	16,600	132,800
Police Vehicle Lease	35,664	9,659		(9,659)			
2012 Ford Trucks	75,686	37,787		(18,379)	19,408	19,408	
Dodge Chargers Lease	43,241	31,516		(9,929)	21,587	10,494	11,093
2014 Ford Trucks	110,643		\$110,643	(30,103)	80,540	25,311	55,229
Total Government Activity Debt - Gross		6,426,962	110,643	(335,170)	6,202,435	352,813	5,849,622
Unamortized Premium		102,624		(6,841)	95,783		95,783
Total Government Activity Debt - Net		<u>\$6,529,586</u>	<u>\$110,643</u>	<u>(\$342,011)</u>	<u>\$6,298,218</u>	<u>\$352,813</u>	<u>\$5,945,405</u>

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 repayable from ad valorem property taxes levied by the Town. Annual principal and interest payments on the bonds are expected to require less than 10 percent of property tax revenues.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

5. LONG-TERM OBLIGATIONS (Continued)

Debt Service Requirements

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

<u>For The Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$352,813	\$226,223	\$579,036
2016	359,510	212,645	572,155
2017	369,012	199,017	568,029
2018	369,600	184,142	553,742
2019	388,600	169,442	558,042
2020 - 2024	2,389,400	585,228	2,974,628
2025 - 2029	1,973,500	110,984	2,084,484
	6,202,435	1,687,681	7,890,116
Unamortized Premium	95,783		95,783
	<u>\$6,298,218</u>	<u>\$1,687,681</u>	<u>\$7,985,899</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, 2014:

	<u>Governmental Activities</u>
Beginning Balance	\$280,116
Additions	112,015
Payments	<u>(51,671)</u>
Ending Balance	<u>\$340,460</u>
Current Portion	<u>\$27,237</u>

6. OTHER FUND DISCLOSURES

Deficit Fund Balance

At June 30, 2014, the following funds had a deficit fund balance:

	<u>Deficits</u>
Non-Major Funds:	
Youth Recreation Special Revenue Fund	\$27,775
Town Capital Projects Fund	26,310

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

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:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2012	\$783,933	100%	\$0
June 30, 2013	861,992	100%	0
June 30, 2014	964,694	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 \$1,493,940 which will be repaid over the next 6 years. The balance of the Side Fund for Miscellaneous was \$202,041 which will be repaid over the next 5 years.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

7. EMPLOYEE RETIREMENT PLANS (Continued)

Assembly Bill (AB) 340 pension reform created the Public Employees' Pension Reform Act (PEPRA) that implemented new benefit formulas and final compensation period, as well as new contribution requirements for new employees hired on or after January 1, 2013 who meet the definition of new member under PEPRA.

The table below provides information on the benefit formula compensation information on the benefit formula, final compensation period and the employer and member contribution rates effective January 1, 2013 for any safety and miscellaneous employees that meet the definition of a new member under PEPRA.

Benefit Formula	Miscellaneous 2% at Age 62	Safety 2.7% at Age 57
Final Compensation Period	3 Year Final Compensation	3 Year Final Compensation
Employer Contribution Rate as a percentage payroll	6.70% of Reportable Compensation	12.25% of Reportable Compensation
Member Contribution Rate as a percentage of payroll	6.50% of Reportable Compensation	12.25% of Reportable Compensation

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 And Medicare-coordinated premiums for such retirees. For those with 10 or more years of service, there are partial benefits. For Public Safety Employees hired after 7/1/2013 they are only eligible for partial retiree benefits (25% - 10 years of service, 50% - 20 years of service) miscellaneous employees hired after 7/1/2013 are no longer eligible for retiree benefits. For retirees not eligible for the premium-based benefit, the Town will pay the CalPers minimum employer contribution towards premiums, which is \$119 for fiscal year 2014. 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, 2014, 9 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.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

8. OTHER PENSION EMPLOYMENT BENEFIT (Continued)

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 OPEB Cost</u>	<u>Actual Contribution</u>	<u>Percentage of Pension Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/12	\$133,903	\$10,560	8%	\$195,074
6/30/13	119,937	69,204	58%	245,807
6/30/14	112,470	137,557	122%	220,720

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 Liability (B)</u>	<u>Unfunded (Overfunded) Actuarial 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%
7/1/11	252,200	1,276,500	1,024,300	19.76%	2,481,924	41.27%
7/1/13	216,400	1,051,800	835,400	20.57%	2,197,100	38.02%

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2014

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.

REQUIRED SUPPLEMENTARY INFORMATION

**Town of Fairfax
 Required Supplementary Information
 For the year ended June 30, 2014**

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.

Expenditures over Appropriations

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

	Expenditures in Excess of Budget
General Fund	\$174,215
Youth Recreation Special Revenue Fund	37,124
Storm Capital Projects Fund	138,810

SUPPLEMENTARY INFORMATION

CAPITAL PROJECTS FUNDS			DEBT SERVICE FUNDS			Total
Storm Capital Projects Fund	Town Capital Projects Fund	Pavilion Renovation	Grants Capital Projects Fund	Measure K 2000 Series	2006 Series	
\$22			\$138,936			\$159,797
			96,366		\$197,135	197,135
						121,280
<u>\$22</u>			<u>\$235,302</u>		<u>\$197,135</u>	<u>\$478,212</u>
			6,170			\$11,425
			4,245			1,650
	\$26,310					4,245
						67,626
	<u>26,310</u>		<u>10,415</u>			<u>84,946</u>
					\$197,135	222,442
\$22			\$224,887			224,887
	(26,310)					22
						(54,085)
<u>22</u>	<u>(26,310)</u>		<u>224,887</u>		<u>197,135</u>	<u>393,266</u>
<u>\$22</u>			<u>\$235,302</u>		<u>\$197,135</u>	<u>\$478,212</u>

CAPITAL PROJECTS FUNDS				DEBT SERVICE FUNDS		Total Nonmajor Governmental Funds
Storm Capital Projects Fund	Town Capital Projects Fund	Pavilion Renovation	Grants Capital Projects Fund	Measure K 2000 Series	2006 Series	
					\$160,015	\$160,015
\$19,507	\$138,339		\$693,425		1,653	1,684,556
	49,029					30,299
						13,255
						78,427
19,507	187,368		693,425		161,668	1,966,552
						133,670
338,810	84,924		727,127			1,194,751
					65,000	65,000
					79,100	79,100
338,810	84,924		727,127		144,100	1,472,521
(319,303)	102,444		(33,702)		17,568	494,031
313,570	78,781		305,000			742,947
	(15,000)	(\$150,000)	(23,503)	(\$3,970)		(1,018,267)
313,570	63,781	(150,000)	281,497	(3,970)		(275,320)
(5,733)	166,225	(150,000)	247,795	(3,970)	17,568	218,711
5,755	(192,535)	150,000	(22,908)	\$3,970	179,567	174,555
\$22	(\$26,310)		\$224,887		\$197,135	\$393,266

YOUTH RECREATION			MEASURE I			GAS TAX		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
	\$14,805	\$14,805	\$460,000	\$456,383	(\$3,617)	\$198,485	\$236,272	\$37,787
\$36,000	30,299	(5,701)						
16,000	13,255	(2,745)						
37,000	29,398	(7,602)						
<u>89,000</u>	<u>87,757</u>	<u>(1,243)</u>	<u>460,000</u>	<u>456,383</u>	<u>(3,617)</u>	<u>198,485</u>	<u>236,272</u>	<u>37,787</u>
95,860	132,984	(37,124)						
<u>95,860</u>	<u>132,984</u>	<u>(37,124)</u>						
(6,860)	(45,227)	(38,367)	460,000	456,383	(3,617)	198,485	236,272	37,787
18,000	23,000	5,000						
(5,000)	(5,000)		(460,000)	(442,294)	17,706	(259,000)	(253,500)	5,500
13,000	18,000	5,000	(460,000)	(442,294)	17,706	(259,000)	(253,500)	5,500
<u>\$6,140</u>	<u>(27,227)</u>	<u>(\$33,367)</u>		<u>14,089</u>	<u>\$14,089</u>	<u>(\$60,515)</u>	<u>(17,228)</u>	<u>\$43,287</u>
								(Continued)
	(548)			(14,089)			17,428	
	<u>(\$27,775)</u>						<u>\$200</u>	