

THE TOWN OF FAIRFAX
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR'S REPORT

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JUNE 30, 2005

TOWN OF FAIRFAX
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

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TOWN OF FAIRFAX
BASIC FINANCIAL STATEMENTS
AND REQUIRED AND OTHER SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005
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October 21, 2005

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying basic financial statements of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Fairfax (the "Town"), as of and for the year ended June 30, 2005, as listed in the accompanying 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial positions of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Fairfax at June 30, 2005, and the respective changes in financial position and cash flows where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America

Management's Discussion and Analysis, budgetary information and the Schedule of Funding Progress are not a required part of the basic financial statements but are supplemental information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The other supplementary information section listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. This 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 relation to the basic financial statements taken as a whole.

Odenberg Ullakko Muranishi & Co LLP

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, 2005. 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 \$10,400,778, liabilities of \$6,345,570 and net assets of \$4,055,208 at June 30, 2005. This compares with assets of \$10,497,992, liabilities of \$6,256,059 and net assets of \$4,241,933 at June 30, 2004.
- 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 \$186,725 for the fiscal year ended June 30, 2005, as compared to a decrease of \$190,131 for the fiscal year ended June 30, 2004. Revenues for fiscal 2005 increased by \$599,535 from the prior year primarily due to higher property and pension taxes. Expenses for the same period increased by \$596,129 mainly because of higher pension and workers' compensation costs in the Public Safety area.
- The Town's net capital assets, net of related debt, totaled \$1,852,838 at June 30, 2005, compared with \$1,037,894 at June 30, 2004.
- The Town's long-term debt (including current portion) totaled \$5,005,000 as of June 30, 2005, which includes the outstanding balance on the Measure K bonds. Additionally, the Town has accrued \$311,421 of non-current claims payable (see *Note 11 to the Basic Financial Statements*).

Fund Highlights

At the close of fiscal year 2005, the Town's governmental funds reported a combined ending fund balance of \$2,433,884, versus \$3,153,315 at June 30, 2004. The reduction primarily relates to street and storm drain expenditures in the Measure K Capital Projects Fund. 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 2004-2005, the Town accomplished the following:

- Installed bicycle racks throughout the Town under a Federal grant.
- Resurfaced approximately three miles of Town streets under the Measure K Bond Program begun in 2000, as well as continued street storm drain improvements. Since the Measure K Program started, the Town has resurfaced nearly half of its streets.
- Successfully passed a five-year special municipal services tax ("Measure F") by 71% of the voters in June 2005; provides approximately \$465,000 per year for police and fire services, public works safety improvements, and the after-school youth program.
- Purchased the first significant open space parcel of land in over thirty years with the majority of the funding coming from a County grant.

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 deteriorating.

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 12 individual governmental funds. In the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances, information is presented separately for the following funds considered to be major funds:

- General Fund
- Measure K Debt Service Series 2002 Fund
- Capital Projects Measure K Fund

Non-major Governmental Funds: Special Revenue. 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
- Recreation Fund

Non-major Governmental Funds: Other Capital Projects. These 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
- Creek Restoration Fund
- Town Fund

Non-major Governmental Funds: Other Debt Service. The Measure K Debt Service Series 2000 Fund is used to account for principal and interest payments on the Town's 2000 series Measure K bond debt.

Non-major Governmental Funds: Internal Service. Through fiscal year 2004, the Insurance Internal Service Fund accounted for the self-insured portion of the Town's workers' compensation, liability, and property insurance programs. At the beginning of fiscal 2005, this fund was closed and the account balances were transferred to the General Fund. All fiscal 2005 insurance activities were reported in the General 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

This is the second year that 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
	2005	2004	
Cash and investments	\$ 2,690,573	\$ 3,519,456	-23.6%
Capital assets, net	6,857,838	6,072,894	12.9%
Other assets	852,367	905,642	-5.9%
Total assets	10,400,778	10,497,992	-0.9%
Current liabilities	1,069,149	1,003,489	6.5%
Non-current liabilities	5,276,421	5,252,570	0.5%
Total liabilities	6,345,570	6,256,059	1.4%
Invested in capital assets, net	1,852,838	1,037,894	78.5%
Restricted	860,993	1,879,532	-54.2%
Unrestricted	1,341,377	1,324,507	1.3%
Net assets	\$ 4,055,208	\$ 4,241,933	-4.4%

Net assets invested in capital assets (e.g. land, buildings, equipment, and infrastructure) of \$1,852,838 at the end of fiscal year 2005 represent 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 \$860,993 at the end of fiscal 2005 represent resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets balance of \$1,341,377 may be used to finance day-to-day operations without constraints.

From a balance sheet perspective, what has changed between 2004 and 2005 is that approximately \$1 million of restricted Measure K funds have been converted in fiscal 2005 to capital assets (ie. street and storm drain improvements). The decrease in net assets of \$186,725 from 2004 to 2005 primarily results from depreciation of the capital asset base.

Changes in Net Assets

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

	Governmental Activities		Percentage Change
	2005	2004	
Revenues:			
Program revenues:			
Charges for services	\$ 877,739	\$ 756,958	16.0%
Operating grants & contributions	100,200	116,649	-14.1%
Capital grants & contributions	163,913	375,897	-56.4%
General revenues:			
Taxes	4,459,013	3,557,922	25.3%
Intergovernmental	331,487	608,107	-45.5%
Use of money & property	95,252	70,454	35.2%
Miscellaneous	67,304	9,386	617.1%
Transfers	-	-	
Total revenues	6,094,908	5,495,373	10.9%
Expenses:			
General government	708,985	681,197	4.1%
Public safety	3,686,633	3,220,009	14.5%
Public works	1,024,949	899,078	14.0%
Planning & Building	434,562	446,416	-2.7%
Parks and recreation	126,331	150,948	-16.3%
Interest on long-term debt	300,173	287,856	4.3%
Total expenses	6,281,633	5,685,504	10.5%
Change in net assets	(186,725)	(190,131)	
Net assets - beginning of year	4,241,933	4,432,064	
Net assets - end of year	\$ 4,055,208	\$ 4,241,933	-4.4%

Net assets decreased \$186,725 during the fiscal year ended June 30, 2005. Total revenues for fiscal 2005 were \$6,094,908, as compared to \$5,495,373 for fiscal 2004. The approximately \$600,000 increase in revenues is mainly attributed to higher pension taxes (\$225,000), property taxes associated with higher assessed property values (\$150,000), excess Educational Revenue Augmentation Fund ("ERAF") distributions (\$125,000), and increased planning, building, and business license fees (\$100,000) in the Charges for Services category. The lower Intergovernmental General Revenues in 2005 from 2004 relate to the change in method of Vehicle License Fee ("VLF") Backfill payments by the State in 2005. The VLF Backfill payments are now distributed as supplemental property taxes and will change in proportion to the growth in gross assessed property valuation. The lower Capital Grants and Contributions in 2005 versus 2004 were due to fewer capital grant projects in 2005. Higher revenues in the Use of Money & Property category in 2005 were mainly caused by an average higher interest rate environment, which enabled the Town to earn more money on its idle cash. In the Miscellaneous area, the year over year increase is associated with the sale of Town land (\$30,000) and Open Space Fund donations (\$33,000).

Total expenses for the year ended June 30, 2005 were \$6,281,633, compared with \$5,685,504 for the same period in 2004. The \$596,000 increase in expenses primarily reflects higher Public Safety pension costs (\$252,000) and workers' compensation claims (\$206,000), increased Public Works expensing of capital outlay costs (\$70,000) due to the generally smaller size of the projects and higher General Government expenses related to the special June 2005 election (\$33,000). These increases were partially offset by expense reductions in Parks and Recreation associated with the mid-year suspension of the after-school youth program.

Analysis of Major Governmental Funds

General Fund

In summary, the actual General Fund excess of revenues and net transfers over expenditures for fiscal year 2004-2005 was \$271,956, as compared to the budgeted deficiency of \$410,923 (see *Schedule 1, General Fund Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual*). The change is the result of significantly higher revenues and lower net transfers out of the General Fund than budgeted, partially offset by higher expenditures, all of which are explained below. The General Fund balance at June 30, 2005 was \$1,690,023 versus the budgeted balance of \$1,007,144.

General Fund revenue during the 2004-2005 year totaled \$5,242,848, which was more than the final budgeted amount by \$385,948, or 7.9%. This revenue increase primarily relates to higher than budget pension tax receipts and excess ERAF distributions, partially offset by lower than budget planning and building department fee revenue due to delayed implementation of fee increases during the year.

General Fund expenditures for fiscal year 2004-2005 totaled \$5,384,188, and were higher than the final budgeted amount by \$56,165, or 1.1%. Cost savings in General Government and the Planning & Building departments of approximately \$43,000 from not immediately filling staff vacancies, were more than offset by higher expenditures in Public Safety workers' compensation claims.

Regarding 2004-2005 transfers, Transfers In to the General Fund from other funds were significantly higher than budget due to the transfer of net current assets from closing the internal service fund. Also, Transfers Out of the General Fund were lower than budget due to the deferral of certain capital projects because of engineering and funding constraints.

Measure K Debt Service Series 2002 Fund

The Measure K Debt Service Series 2002 Fund balance increased by \$40,046 to \$176,470 at June 30, 2005, as compared to an increase of \$11,963 in the budget.

The Measure K Debt Service Series 2002 Fund revenues totaled \$205,911 for 2004-2005 and exceeded budget by \$28,391 mainly because of higher property assessed values than budgeted.

Actual principal and interest payments on the Series 2002 Measure K bonds totaled \$20,000 and \$145,865, respectively, compared with budgeted payments of \$20,000 and \$145,557, respectively.

Capital Projects Measure K Fund

The Capital Projects Measure K Fund balance decreased by \$1,032,144 to \$319,111 at June 30, 2005, approximately \$312,000 higher than budgeted.

The Capital Projects Measure K Fund revenues of \$11,916 consisted of investment earnings from the Local Agency Investment Fund (LAIF) and bank interest income. The Town had budgeted \$7,000.

The actual expenditures of \$1,044,060 consisted primarily of scheduled road resurfacing costs and were lower than budgeted expenses of \$1,351,000 due to a delay in construction until the 2006 fiscal year.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

Over the past few years, the State of California has diverted significant local monies to help solve its financial problems. Coupled with the recent recession and its lingering negative impact on merchant sales, these revenue shifts, some temporary and some permanent, have had, and will have, substantial adverse effects on the fiscal health of local governments for the next few years. Also, as revenues have declined in the past several years, employer expenses have risen at an alarming rate, especially in the areas of employee pension, healthcare, and workers' compensation insurance costs. Pension costs have risen significantly due to the stock market's poor performance in 2001 and 2002. Health and workers' compensation costs continue to increase well beyond the inflation rate.

Last year at this time, the financial situation was not very rosy. The budget showed a significant deficit for the year. The Town tried to pass a special tax measure in November 2004, but it fell short. However, the staff persevered and implemented a number of targeted fee increases recommended by the Finance Committee and approved by Town Council. At the same time, the staff began functioning in an austerity mode, deferring costs (certain personnel replacements, capital projects, equipment replacements) where possible. In effect, the Town managed its way through this tough period and ended the year in an operating surplus.

The 2005-2006 budget shows a healthy operating surplus primarily because of the new Measure F tax and the early repayment of the 2003-2004 VLF Gap loan of \$125,000 from the State. This repayment was originally expected in the 2007 fiscal year. With the Measure F money, the Town should be on firm financial footing for the next five years, as long as the State doesn't renege on its promise to not take more money from the cities.

However, it is important to point out that while the passage of Measure F improves the Town's financial condition on a short-term basis, it is not a panacea. Measure F will not replenish depleted reserves. Also, Measure F is a flat tax and will not increase over time. Therefore, inflationary increases in operating and capital costs will have to be covered through other revenue sources. Lastly and most importantly, Measure F sunsets in five years and it will be critical to develop a strategic plan over the next couple of years to address how to supplant all or part of the Measure F funds through alternative methods of operations or fees.

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

(Ph) 415-458-2350

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

* * * * *

TOWN OF FAIRFAX
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and investments	\$ 2,690,573	\$ -	\$ 2,690,573
Receivables			
Taxes	30,924	-	30,924
Accounts	96,586	-	96,586
Intergovernmental	187,865	-	187,865
Interest	24,317	-	24,317
Deposits and other current assets	199,210	-	199,210
Total current assets	<u>3,229,475</u>	<u>-</u>	<u>3,229,475</u>
Noncurrent assets:			
Receivables	123,178	-	123,178
Deferred charges, net	190,287	-	190,287
Capital assets, net	<u>6,857,838</u>	<u>-</u>	<u>6,857,838</u>
Total noncurrent assets	<u>7,171,303</u>	<u>-</u>	<u>7,171,303</u>
 Total assets	 <u>10,400,778</u>	 <u>-</u>	 <u>10,400,778</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	65,321	-	65,321
Deposits	122,730	-	122,730
Compensated absences	135,068	-	135,068
Deferred revenue	363,095	-	363,095
Interest payable	110,379	-	110,379
Claims payable	232,556	-	232,556
Current portion of long-term debt	40,000	-	40,000
	<u>1,069,149</u>	<u>-</u>	<u>1,069,149</u>
Noncurrent liabilities:			
Long-term debt, net	4,965,000	-	4,965,000
Claims payable, noncurrent	311,421	-	311,421
Total liabilities	<u>6,345,570</u>	<u>-</u>	<u>6,345,570</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,852,838	-	1,852,838
Restricted for:			
Retirement	117,132	-	117,132
Special revenue	21,015	-	21,015
Capital projects	424,510	-	424,510
Debt service	298,336	-	298,336
Unrestricted	<u>1,341,377</u>	<u>-</u>	<u>1,341,377</u>
 Total net assets	 <u>\$ 4,055,208</u>	 <u>\$ -</u>	 <u>\$ 4,055,208</u>

TOWN OF FAIRFAX

Statement of Activities and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue
					Governmental Activities
PRIMARY GOVERNMENT					
Governmental activities:					
General government	\$ 708,985	\$ 387,208	\$ -	\$ -	\$ (321,777)
Public safety	3,686,633	133,105	100,200	-	(3,453,328)
Public works	1,024,949	-	-	13,913	(1,011,036)
Planning & Building	434,562	331,848	-	-	(102,714)
Parks and recreation	126,331	25,578	-	150,000	49,247
Interest on long-term debt	300,173	-	-	-	(300,173)
Total governmental activities	<u>6,281,633</u>	<u>877,739</u>	<u>100,200</u>	<u>163,913</u>	<u>(5,139,781)</u>
Business-type activities:					
	-	-	-	-	-
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets:					
Net (expense) revenue	<u>\$ 6,281,633</u>	<u>\$ 877,739</u>	<u>\$ 100,200</u>	<u>\$ 163,913</u>	<u>\$ (5,139,781)</u>

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TOWN OF FAIRFAX

Statement of Activities and Changes in Net Assets (Continued)

For the Fiscal Year Ended June 30, 2005

Functions/Programs	Primary Government		
	Governmental Activities	Business-type Activities	Total
Change in net assets:			
Net (expense) revenue	<u>\$ (5,139,781)</u>	<u>\$ -</u>	<u>\$ (5,139,781)</u>
General revenues:			
Taxes	4,459,013	-	4,459,013
Intergovernmental revenues	331,487	-	331,487
Use of money & property	95,252	-	95,252
Miscellaneous	67,304	-	67,304
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Total general revenues and transfers	<u>4,953,056</u>	<u>-</u>	<u>4,953,056</u>
Change in net assets	<u>(186,725)</u>	<u>-</u>	<u>(186,725)</u>
Net assets, beginning of year	<u>4,241,933</u>	<u>-</u>	<u>4,241,933</u>
Net assets, end of year	<u>\$ 4,055,208</u>	<u>\$ -</u>	<u>\$ 4,055,208</u>

TOWN OF FAIRFAX
Governmental Funds
Balance Sheet
June 30, 2005

	Major Funds				Total Governmental Funds
	General Fund	Measure K Debt Service Series 2002	Capital Projects Measure K	Other Governmental Funds	
ASSETS					
Cash and investments	\$ 1,967,838	\$ 174,468	\$ 317,571	\$ 230,696	\$ 2,690,573
Receivables:					
Taxes	30,924	-	-	-	30,924
Accounts	94,566	-	-	2,020	96,586
Intergovernmental	292,984	2,002	-	16,057	311,043
Interest	22,777	-	1,540	-	24,317
Deposits	199,210	-	-	-	199,210
Total assets	\$2,608,299	\$ 176,470	\$ 319,111	\$ 248,773	\$ 3,352,653
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable and accrued liabilities	\$ 64,828	\$ -	\$ -	\$ 493	\$ 65,321
Claims payable	232,555	-	-	-	232,555
Deposits	122,730	-	-	-	122,730
Compensated absences	135,068	-	-	-	135,068
Deferred revenue	363,095	-	-	-	363,095
Total liabilities	918,276	-	-	493	918,769
Fund balances					
Reserved	117,132	176,470	319,111	248,280	860,993
Unreserved					
Designated	1,557,242	-	-	-	1,557,242
Undesignated	15,649	-	-	-	15,649
Total fund balances	1,690,023	176,470	319,111	248,280	2,433,884
Total liabilities and fund balances	\$2,608,299	\$ 176,470	\$ 319,111	\$ 248,773	\$ 3,352,653

TOWN OF FAIRFAX

**Reconciliation of the Governmental Funds Balance Sheet to the
Government-Wide Statement of Net Assets**

June 30, 2005

Total Fund Balances - Total Governmental Funds **\$ 2,433,884**

Amounts reported for governmental activities in the statement of net assets are different because:

Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period which the debt is outstanding. The costs are reported as expenditures of the current period in the governmental funds:

General Obligation Bonds - Series 2000	79,531	
General Obligation Bonds - Series 2002	<u>110,756</u>	190,287

Capital assets used in governmental activities are not current financial resources. Therefore they are not reported in the Governmental Funds Balance Sheet.

Nondepreciable	249,888	
Depreciable	10,429,645	
Less accumulated depreciation	<u>(3,821,695)</u>	6,857,838

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.

(110,379)

Long-term liabilities are not due and payable in the current period and, therefore, were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

Non-current claims payable	(311,422)	
General Obligation Bonds - Series 2000	(2,035,000)	
General Obligation Bonds - Series 2002	<u>(2,970,000)</u>	(5,316,422)

Internal service funds are used by management to charge costs of certain activities such as equipment replacement, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

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Net Assets of Governmental Activities

\$ 4,055,208

TOWN OF FAIRFAX**Governmental Funds****Statement of Revenues, Expenditures and Changes in Fund Balances****For the Fiscal Year Ended June 30, 2005**

	Major Funds				Total Governmental Funds
	General Fund	Measure K Debt Service Series 2002	Capital Projects Measure K	Other Governmental Funds	
REVENUES					
Taxes	\$4,096,817	\$ 202,830	\$ -	\$ 159,366	\$ 4,459,013
Licenses & permits	573,442	-	-	3,675	577,117
Intergovernmental revenues	178,114	3,081	-	414,405	595,600
Charges for services	177,444	-	-	23,449	200,893
Fines & forfeitures	99,729	-	-	-	99,729
Use of money & property	83,336	-	11,916	-	95,252
Miscellaneous	33,966	-	-	33,338	67,304
Total revenues	5,242,848	205,911	11,916	634,233	6,094,908
EXPENDITURES					
Current:					
General government	677,580	-	-	-	677,580
Public safety	3,584,846	-	-	-	3,584,846
Public works	558,961	-	-	4,825	563,786
Planning & Building	430,406	-	-	-	430,406
Parks and recreation	93,588	-	-	31,805	125,393
Debt service:					
Principal	-	20,000	-	10,000	30,000
Interest	26,146	145,865	-	119,678	291,689
Capital outlay	12,661	-	1,044,060	263,820	1,320,541
Total expenditures	5,384,188	165,865	1,044,060	430,128	7,024,241
REVENUES OVER (UNDER) EXPENDITURES	(141,340)	40,046	(1,032,144)	204,105	(929,333)
OTHER FINANCING SOURCES (USES)					
Proceeds from bond issuance	-	-	-	-	-
Transfers in	1,726,444	-	-	50,960	1,777,404
Transfers out	(1,313,148)	-	-	(254,354)	(1,567,502)
Total other financing sources (uses)	413,296	-	-	(203,394)	209,902
Net change in fund balances	271,956	40,046	(1,032,144)	711	(719,431)
Fund balances, beginning of year	1,418,067	136,424	1,351,255	247,569	3,153,315
Fund balances, end of year	\$1,690,023	\$ 176,470	\$ 319,111	\$ 248,280	\$ 2,433,884

TOWN OF FAIRFAX

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Government-Wide Statement of
Activities and Changes in Net Assets**

For the Fiscal Year Ended June 30, 2005

Net Changes in Fund Balances - Total Governmental Funds **\$ (719,431)**

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay	1,237,956	
Depreciation expense	<u>(453,012)</u>	784,944

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

Principal repayments of long-term debt	<u>30,000</u>	30,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but deferred and amortized throughout the period during which the related debt is outstanding

Amortization of bond issuance costs	(9,011)	
Change in accrued non-current claims payable	(63,852)	
Change in accrued interest payable	<u>527</u>	(72,336)

Internal service funds are used by management to charge the costs of certain activities, such as equipment replacement, to individual funds. The net revenue (expense) of the internal service funds is reported with the governmental funds.

(209,902)

Total Changes in Net Assets of Governmental Activities **\$ (186,725)**

TOWN OF FAIRFAX
Proprietary Funds
Statement of Net Assets
June 30, 2005

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
Cash and investments	\$ -	\$ -
Receivables:		
Accounts	-	-
Intergovernmental receivables	-	-
Due from other funds	-	-
Deposits	-	-
Total current assets	<u>-</u>	<u>-</u>
Capital assets, net	<u>-</u>	<u>-</u>
Total assets	<u>-</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable	-	-
Claims payable	-	-
Deposits payable	-	-
Due to other funds	-	-
Total current liabilities	<u>-</u>	<u>-</u>
Noncurrent liabilities:		
Claims payable	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
NET ASSETS		
Fund balances:		
Reserved	-	-
Unreserved	-	-
Undesignated	-	-
Total net assets	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FAIRFAX

Proprietary Funds

Combining Statement of Revenues, Expenses and Changes in Net Assets

For the Fiscal Year Ended June 30, 2005

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
REVENUES		
Charges for services	\$ -	\$ -
Miscellaneous	-	-
Total revenues	<u>-</u>	<u>-</u>
EXPENSES		
Salaries and benefits	-	-
General service and supplies	-	-
Insurance claims	-	-
Depreciation and amortization	-	-
Miscellaneous	-	-
Total expenses	<u>-</u>	<u>-</u>
Operating income (loss)	<u>-</u>	<u>-</u>
Nonoperating revenues (expenses)		
Interest income	-	-
Total nonoperating revenue (expenses)	<u>-</u>	<u>-</u>
Net income (loss) before transfers	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	101,100
Transfers out	-	<u>(311,002)</u>
	<u>-</u>	<u>(209,902)</u>
Change in net assets	-	(209,902)
Net assets, beginning of year	-	(37,668)
Change in accounting - closure of internal service fund		247,570
Net assets, end of year	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FAIRFAX

Proprietary Funds

Statement of Cash Flows

For the Fiscal Year Ended June 30, 2005

	<u>Business-Type Activities-</u>	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from refund	\$ -	\$ -
Cash paid to suppliers	-	-
Net cash provided (used) by operating activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers in from other funds	-	-
Transfers out to other funds	-	(73,351)
Net cash used by noncapital financing activities	<u>-</u>	<u>(73,351)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments - bonds	-	-
Interest paid	-	-
Net cash used by capital and related financing activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	-	-
Net cash provided by investing activities	<u>-</u>	<u>-</u>
Net change in cash and cash equivalents	-	(73,351)
Cash and cash equivalents at beginning of year	-	73,351
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating income (loss)	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization expense	-	-
Changes in assets and liabilities:		
Increase (decrease) in other assets	-	-
Increase (decrease) in accounts payable and accrued liabilities	-	-
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FAIRFAX

Fiduciary Funds

Statement of Fiduciary Net Assets

June 30, 2005

	<u>Trust Funds</u>	<u>Agency Funds</u>
ASSETS		
Cash and investments	\$ -	\$ 146,093
Due from other funds	-	-
Total assets	<u>-</u>	<u>146,093</u>
 LIABILITIES		
Accounts payable	-	-
Deposits	-	146,093
Due to other funds	-	-
Total liabilities	<u>-</u>	<u>146,093</u>
 NET ASSETS		
Assets held in trust	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FAIRFAX

Fiduciary Funds

Statement of Changes in Fiduciary Net Assets

For the Fiscal Year Ended June 30, 2005

	<u>Trust Funds</u>
ADDITIONS	
Operating revenues	\$ -
Investment income:	
Interest	-
Net investment income	-
	<hr/>
Total additions to net assets	-
	<hr/>
DEDUCTIONS	
General and administrative expenses	-
Depreciation and amortization	-
Interest expense	-
Total deductions from net assets	-
	<hr/>
Changes in net assets	-
	<hr/>
Net assets, beginning of year	-
Net assets, end of year	<u>\$ -</u>

THE TOWN OF FAIRFAX

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - Summary of significant accounting policies:

The Town of Fairfax, (the Town) is a municipal corporation governed by an elected five member Town Council. The Town operates under a Council-Manager form of government and provides public safety including police protection, streets and street lighting, parks and recreation, public improvements, planning and zoning, and general government services.

The basic financial statements of the Town have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP-US") 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 following is a summary of more significant policies:

Reporting entity

The Town operates as a self-governing local governmental unit within the State of California. It has limited authority to levy taxes and has the authority to determine user fees for the services that it provides. Voters elect a town council that passes laws and determines broad policies. The council also oversees the operations of the Town and approves all budgets, fund transfers and fund balance reserves.

The Town's main funding sources include property taxes, sales taxes, other intergovernmental revenue from state and federal sources, user fees, and federal and state financial assistance.

As required by accounting principles generally accepted in the United States of America, these financial statements present the financial activities of the Town (the primary government) and its component units. Component units are legally separate entities for which the Town is considered to be financially accountable. The Town has no component units.

Fund accounting

In order to ensure the proper identification of individual revenue sources and the expenditures made from those revenues, the accounts of the Town are organized on the basis of individual funds and account groups, each of which is considered to be a separate accounting entity. The operations of each fund or account group 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. The Town's resources are accounted for in these individual funds based on 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 ("Statement of Activities"). These statements present summaries of governmental activities and business-type activities for the Town, accompanied by a total column. These financial statements include the financial activities of the overall Town government, except for fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. Governmental activities are financed generally through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed generally through user fees. The Town had no business-type activities at June 30, 2005.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are

specifically associated with a program or function and therefore are clearly identifiable to a particular function. Program revenues include three categories: (1) charges for services, (2) operating grants and contributions and (3) capital grants and contributions. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Certain eliminations have been made as prescribed by Governmental Accounting Standards Board No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* ("GASB No. 34") related to inter-fund activities, payables and receivables.

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. Accompanying schedules are presented to reconcile and explain the differences in net assets as presented in these fund statements to the net assets presented in the government-wide financial statements.

GASB 34 defines major funds and requires that the Town's major governmental funds be identified and presented separately in the Fund financial statements. All other governmental funds, called non-major funds, are combined and reported in a single column, regardless of their fund-type.

Major funds are defined as governmental and enterprise funds which have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total or five percent of the grand total. The general fund is always a major fund. The Town may select other governmental funds it believes should be presented as major funds. In fiscal 2005, the Town elected to present the Measure K Debt Service Series 2002 Fund as a major fund. No such funds were selected in fiscal 2004.

The major governmental funds of the Town are:

- **General Fund** – The General Fund is used to account for the resources to carry out basic governmental activities of the Town such as general government, public safety, public works, parks and planning, which are not required to be accounted for in another fund.
- **Measure K Debt Service Series 2002 Fund** - This fund was established to account for principal and interest payments of the Measure K general obligation bonds – Series 2002.
- **Capital Projects Measure K Fund** – This fund is used to account for the Town's various capital projects funded with Measure K general obligation bonds.

Proprietary fund financial statements

Proprietary Fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund and non-major funds aggregated. A column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-wide financial statements.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total 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.

Prior to July 1, 2004, the Town's only internal service fund was the Insurance Fund. This fund was being used to account for the self-insured portion of the Town's workers' compensation and liability insurance programs. At the beginning of fiscal 2005, this fund was closed and the account balances were transferred to the General Fund. All 2005 activities were reported in the General Fund.

Fiduciary fund financial statements

Fiduciary funds are used to account for resources held for the benefit of parties outside of the reporting government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The Town utilizes two types of fiduciary funds:

- Trust funds are used to record the assets and liabilities held for the benefit of others, under a trust agreement that specifies the degree of management performed by the trustee organization. The Town had no Trust funds as of June 30, 2005.
- Agency funds are used to record assets of separate organizations for which the Town serves as a custodian for the organization. All assets in agency funds are offset by a liability to the organization on whose behalf they are held. The Town currently maintains one agency fund that is reported in a separate statement of fiduciary net assets. The Town's agency fund is used to account for cash and investments held by the Town as agent for the Town's Pavilion Renovation Project.

Basis of accounting

The Government-wide, Proprietary Funds and Fiduciary Funds financial statements required by GASB 34 are reported using the "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Town's assets and liabilities, including capital assets and long-term liabilities, if any, 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.

The Governmental Fund financial statements are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and liabilities (except for long-term advances from the Town) are included in the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing 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 that revenues subject to accrual (generally 60 days after fiscal year end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Town, are property taxes, sales taxes, intergovernmental revenues, other taxes and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the Town may fund certain programs with a combination of cost-reimbursement grants, categorical block grants and general revenues; thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Town's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Non-exchange transactions, in which the Town gives or receives value without directly receiving or giving value in exchange, include taxes, grants, entitlements and donations. On the accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Town follows Statements and Interpretations of the Financial Accounting Standards Board and its predecessors that were issued on or before November 30, 1989, in accounting for its business-type activities, unless they conflict with Government Accounting Standards Board pronouncements.

The reconciliations of the Governmental Fund financial statements to the Government-wide financial statements are provided to explain the differences created by the integrated approach of GASB No. 34.

Use of restricted/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.

Cash and investments

For purposes of the Statement of Cash Flows, the Town's proprietary fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents. The Town's policy has been to pool idle cash from all funds and invest it in the Local Agency Investment Fund of the State of California, into which the Town may deposit additional cash at any time without prior notice or penalty. All investments are stated at fair value.

California Local Agency Investment Fund (LAIF)

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. The pool is managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee, comprised of California State officials and various participants, provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The City is a voluntary participant in the investment pool.

Inventories

Inventories of supplies are charged out as expenditures at the time of purchase.

Property taxes

In 1978, a State constitutional amendment (Proposition 13) provided that the tax rate be limited to 1% of market value of real property, levied by only the county and shared with all other jurisdictions. Property tax revenue is recognized in the fiscal year for which the tax assessment is levied. The County of Marin levies, bills, and collects property taxes for the Town. The County remits the entire amount levied and collects all delinquencies, retaining all interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

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”.

Governmental Fund Balance consists of the following: Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws that require a portion of the fund balance to be segregated or identify the portion of the fund not available for future expenditures.

Statement calculations and use of estimates

Due to rounding, column and row calculations may approximate actual figures. Approximations may result when decimal places are eliminated to present whole numbers.

The preparation of financial statements in conformity with generally accepted accounting principles as accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

New GASB Pronouncements

In June 2004, the Governmental Accounting Standards Board issued Statement of Governmental Accounting Standards No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, effective for periods beginning after December 15, 2007. This Statement addresses standards for the measurement and recognition of other post-employment benefits with the period when the cost is incurred rather than when the benefits are paid or provided. The Town is reviewing the requirements of this standard, and has not yet determined the impact on its financial statements or financial condition.

Jointly governed organizations

Jointly governed organizations are legal entities or other organizations that result from a contractual agreement and that are governed by representatives from each of the participating governments. The organizations provide services to the citizenry of the participating governments, but the Town has no equity interest in the organizations.

The Town participates in the following jointly governed organizations:

Ross Valley Fire Service

The Ross Valley Fire Service (the "Fire Service") was created in 1982 under a joint powers agreement between the Towns of Fairfax and San Anselmo to provide fire protection, emergency medical and related services within the Fairfax-San Anselmo area. Primary funding for the Fire Service is through contributions from the Towns. The Fire Service is governed by a board of directors appointed by the two Towns and administered by the Town Administrator of one of the Towns, as appointed by the board of directors. The Town of Fairfax's contribution to the Fire Service for the fiscal year ended June 30, 2005 was \$1,355,121. Audited financial statements may be obtained from Ross Valley Fire Service, 777 San Anselmo Avenue, San Anselmo, CA 94960.

Ross Valley Paramedic Authority

The Ross Valley Paramedic Authority ("RVPA") was created on December 14, 1982 by the Town of Corte Madera, Town of Fairfax, Kentfield Fire Protection District, City of Larkspur, County of Marin, Town of Ross, Town of San Anselmo, and Sleepy Hollow Fire Protection District to provide paramedic services to these eight public entities. The RVPA is controlled by an eight member board consisting of one member from each of the participating entities. None of the entities exercises specific control over the budgeting and financing of the RVPA's activities. The County of Marin Fire Department assigns seven full-time County employees as well as supervision by County fire department superior officers to render the paramedic service. Audited financial statements may be obtained by mailing a request to the Ross Valley Paramedic Authority at 777 San Anselmo Avenue, San Anselmo, CA 94960.

RVPA's operations are financed by its members, through a tax on each residential unit and an equivalent tax for commercial property. Through the tax roll, the Town of Fairfax remitted \$111,041 to the authority. The City of Larkspur maintains the books and records of the RVPA.

Marin County Cable Rate Regulation Authority

The Marin County Cable Rate Regulation Authority was established as a joint Powers Authority between the Towns and Cities of Belvedere, Corte Madera, Larkspur, Mill Valley, Ross, Sausalito, San Rafael, San Anselmo, Fairfax, and Tiburon and Marin County. 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 its 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, Room 225, San Rafael, CA 94903.

Marin General Services Authority

The Marin General Services Authority ("Authority") was created 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 within the member agencies including the taxicab regulation program and information management services. All assets and funds of the Street Light Authority are transferred to the General Services Authority. The financial responsibility of each member is based on a relative population and assessed value formula. Audited financial statements may be obtained by mailing a request to the Marin Street Light Authority at Marin County Auditor-Controller, County of Marin, Room 225, San Rafael, CA 94903.

Marin Emergency Radio Authority

The Town of Fairfax is a member of the Authority, along with the County of Marin and twenty-four local government agencies. The Authority's purpose is to plan, finance, implement, own, and operate a multi-jurisdictional and county-wide public safety and emergency radio system. To finance this system, the Authority in 1999 issued about \$27 million in revenue bonds.

NOTE 2 – Budgets and budgetary accounting:

Budgeting procedures

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

1. The Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. The Town Manager is authorized to transfer budgeted amounts between line items within any department; however, any transfers or revisions which alter total expenditures of any fund must be approved by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and all Special Revenue.

Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve their portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration in all budgeted funds. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are re-appropriated in the following year. Unexpended appropriations lapse at year-end and must be re-appropriated in the following year.

NOTE 3 – Cash and investments:

The Town's dependence on property tax receipts, which are received semi-annually, requires it to maintain significant cash reserves to finance operations during the remainder of the year. The Town pools cash from all sources and all funds so that it can be safely invested at maximum yields, while individual funds can make expenditures at any time. All investments are carried at market value. Cash and investments maturing in three months or less are considered to be liquid assets for purposes of measuring cash flows.

Categorization of credit risk of securities instruments

The Town categorizes its individual securities instruments in ascending order to reflect the relative risk of loss of these instruments. This risk is called Credit Risk -- the lower the number, the lower the risk.

The three levels of risk prescribed by generally accepted accounting principles as accepted in the United States of America are described below:

Category 1 – Securities instruments in this category are in the Town's name and are in the possession of the Trust Department of the bank employed by the Town solely for this purpose. The Town is the registered owner of securities held in book entry form by the bank's trust department.

Category 2 – Securities instruments and book entry form securities in this category are in the bank's name but are held by its trust department in a separate account in the Town's name.

Category 3 – The Town's investments in this category include only Town-owned securities instruments or book entry form securities which were not in the Town's name or which were not held by the bank's trust department.

Pooled investments – Pooled investments are not categorized because of their pooled, rather than individual, nature.

The Town invests only in the California Local Agency Investment Fund ("LAIF"), an investment pool sponsored by the state of California. Investments are carried at market value, and were as follows at June 30, 2005:

	Carrying Value	Fair Value
Category 1:		
Certificates of deposit	\$ 244,749	\$ 244,749
Non-categorized:		
Cash in bank and on hand:		
Cash deposits	245,694	245,694
Petty cash	300	300
Pooled investments:		
Local Agency Investment Fund	<u>2,345,923</u>	<u>2,345,923</u>
Total cash and investments	<u>\$ 2,836,666</u>	<u>\$ 2,836,666</u>

The composition of cash and investments by funds at June 30, 2005 was as follows:

Major funds:	
General fund	\$ 1,967,838
Measure K Debt Service-Series 2002	174,468
Capital Projects - Measure K	317,571
Other governmental nonmajor funds	230,696
	<u>2,690,573</u>
Agency fund	<u>146,093</u>
	<u>\$ 2,836,666</u>

Cash deposits

The carrying amount of the Town's cash deposits totaled \$245,694 at June 30, 2005. Bank balances before reconciling items totaled \$556,730 of which \$100,000 was insured. The difference between the carrying amount and the bank balance is primarily related to outstanding checks at June 30, 2005.

Authorized investments

Pursuant to the Town's investment policy, Town funds may only be invested in the State of California's Local Agency Investment Funds (LAIF), Certificates of Deposit with financial institutions that are FDIC insured up to \$100,000, and Public Funds savings or checking accounts with financial institutions that are FDIC insured up to \$100,000. The Town Council may use no other investment vehicle

without specific approval. The investment policy is reviewed at least annually. The credit risk of LAIF is not rated, and has a maturity of 12 months or less.

NOTE 4 – Noncurrent receivables / Deferred revenue:

The Town has recorded noncurrent receivables totaling \$123,178 relating to the Mandated Cost Program receivables. The Mandated Cost program receivable is expected to start being paid back by the State of California in fiscal 2007, and this amount is included in deferred revenue on the accompanying financial statements. Also included in deferred revenue is \$125,247 relating to Vehicle License Fees receivable, which was received in July 2005, and \$114,670 relating to the excess utility users' taxes (see Note 12).

NOTE 5 – Capital assets:

Governmental activity capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated. Public domain (infrastructure) general fixed assets include roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems. Capital assets are recorded at cost and depreciated over their estimated useful lives. Depreciation is charged to governmental activities, by function.

Depreciation of capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, accumulated depreciation, is reported on the Statement of Net Assets as a reduction in the book value of capital assets.

Depreciation of capital assets in service is provided using the straight-line method, which means the cost of the asset is divided by its expected useful life in years, and the result is charged to expense each year until the asset is fully depreciated. The Town has assigned the useful lives listed below to capital assets.

Buildings	50 years
Improvements	20 years
Vehicles	6-15 years
Machinery and equipment	5-20 years
Infrastructure	20-65 years

Capital assets for the fiscal year ended June 30, 2005 is as follows:

	June 30, 2004	Additions	Retirements	June 30, 2005
Capital assets not being depreciated:				
Land	\$ 48,686	\$ 201,208	\$ 6	\$ 249,888
Construction-in-progress	-	-	-	-
Non-depreciable capital assets	48,686	201,208	6	249,888
Depreciable capital assets:				
Buildings	341,183	-	-	341,183
Improvements	270,844	-	-	270,844
Infrastructure	7,821,176	1,036,754	-	8,857,930
Machinery and equipment	537,164	-	-	537,164
Vehicles	443,516	-	20,992	422,524
Depreciable capital assets	9,413,883	1,036,754	20,992	10,429,645
Less-accumulated depreciation for:				
Buildings	233,686	5,547	-	239,233
Improvements	83,277	10,237	-	93,514
Infrastructure	2,506,371	363,909	-	2,870,280
Machinery and equipment	276,777	28,714	-	305,491
Vehicles	289,564	44,605	20,992	313,177
Accumulated depreciation	3,389,675	453,012	20,992	3,821,695
Depreciable capital assets, net	6,024,208	583,742	-	6,607,950
Total capital assets, net	\$ 6,072,894	\$ 784,950	\$ 6	\$ 6,857,838

Depreciation expense for governmental activities was charged to function as follows:

General government	\$ 18,744
Public safety	39,764
Public works	389,410
Planning	4,156
Parks and recreation	938
	<u>\$ 453,012</u>

The Town has no business-type activities.

NOTE 6 – Interfund transactions:

Interfund operating transfers

With Town Council approval, resources may be transferred from one Town fund to another. The purpose of the majority of transfers, called operating transfers, is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a residual equity transfer may be made to open or close a fund.

Transfers between individual funds during the fiscal year ended June 30, 2005 were as follows:

	Transfers In	Transfers Out
Major funds:		
General Fund	\$ 1,726,444	\$ 1,313,148
	<u>1,726,444</u>	<u>1,313,148</u>
Nonmajor funds:		
Other Special Revenue Funds:		
Gas Tax Fund	-	147,871
Special Police Fund	-	101,475
Open Space Fund	1,333	-
Recreation Fund	9,609	1,333
	<u>10,942</u>	<u>250,679</u>
Other Capital Projects Fund:		
Grants Fund	26,494	-
Creek Restoration Fund	4,002	-
Town Fund	9,522	3,675
	<u>40,018</u>	<u>3,675</u>
Internal Service Fund:		
Self-insurance Fund	101,100	311,002
	<u>\$ 1,878,504</u>	<u>\$ 1,878,504</u>

NOTE 7 – Long-term debt:

The Town generally incurs long-term debt to finance projects or purchase assets that will have useful lives equal to or greater than the related debt.

General obligation bonds

On November 2, 1999, voters approved the issuance of up to \$6,830,000 of general obligation bonds to finance the construction and acquisition of capital improvements to various streets and storm drains within the Town and to the Town's community facilities.

The Town on May 1, 2000, issued \$2,065,000 of the General Obligation Bonds, Series 2000. The bonds are general obligation bonds and the Town is obligated to levy ad valorem taxes for the payment of bond principal and interest. Interest on the bonds is payable each February 1 and August 1. The bonds bear interest at rates of 5.25 to 6.10 percent.

The Bonds consisted of:

- \$730,000 of serial bonds maturing each August 1 through August 1, 2017.
- \$385,000 of term bonds maturing August 1, 2020
- \$950,000 of term bonds maturing August 1, 2025

Bonds maturing before August 1, 2007 are not subject to redemption prior to their fixed maturity dates. Bonds maturing on or after August 1, 2008 are subject to redemption prior to their respective maturity dates from money provided at the option of the Town with redemption premiums of 1 to 2 percent. The term bonds maturing 2020 are subject to early redemption without premium on or after August 1, 2018 from mandatory sinking fund redemptions. Term bonds maturing August 1, 2025 are also subject to mandatory early redemptions from sinking fund payments commencing August 1, 2021.

The Town on June 1, 2002 issued \$3,000,000 of the General Obligation Bonds, Series 2002. The bonds are general obligations of the Town payable solely from the ad valorem property taxes levied by the Town and collected by the County of Marin.

The proceeds from the sale of the Series 2002 Bonds are to be used for the payment of project costs for construction and completion of certain municipal improvements (repair of town streets, storm drains, sidewalks, and public facilities).

Changes in long-term obligations and debt for the fiscal year ended June 30, 2005 are as follows:

	Balance at June 30, 2004	Additions	Retirements	Balance at June 30, 2005	Due in next fiscal year
General obligation bonds:					
Series 2000	\$ 2,045,000	\$ -	\$ 10,000	\$ 2,035,000	\$ 15,000
Series 2002	2,990,000	-	20,000	2,970,000	25,000
	<u>\$ 5,035,000</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 5,005,000</u>	<u>\$ 40,000</u>

The minimum annual payments on the bonds are as follows:

Fiscal year ending June 30,	Series 2000	Series 2002	Total
2006	134,415	170,495	\$ 304,910
2007	138,628	174,570	313,198
2008	142,578	178,460	321,038
2009	146,265	182,165	328,430
2010	149,690	190,565	340,255
2011-2015	827,598	1,027,265	1,854,863
2016-2020	962,210	1,189,005	2,151,215
2021-2025	1,102,455	1,372,515	2,474,970
2026-2028	238,725	917,950	1,156,675
	<u>3,842,564</u>	<u>5,402,990</u>	<u>9,245,554</u>
Less - interest	<u>1,807,564</u>	<u>2,432,990</u>	<u>4,240,554</u>
	<u>\$ 2,035,000</u>	<u>\$ 2,970,000</u>	<u>\$ 5,005,000</u>

NOTE 8 – Fund equity:

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent those portions of fund balances, which are not available for appropriation or are legally or third-party restricted for specific future purposes. The remaining portions are unreserved fund balances. Reserved fund balances at June 30, 2005 were:

Reserved for retirement fund	\$ 117,132
Reserved special revenue	21,015
Reserved for debt service	298,336
Reserved for capital projects	424,510
	<u>\$ 860,993</u>

Portions of unreserved fund balances may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change, have not been legally authorized, and may not result in expenditures. Unreserved designated fund balances at June 30, 2005 were:

General fund:	
Dry period fund	\$ 858,056
Equipment replacement	247,032
Office equipment replacement	140,732
	<u>\$ 1,245,820</u>

NOTE 9 – Excess of Expenditure Over Appropriations:

The following fund had expenditures which exceeded the adopted budget.

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund:			
Public safety	\$ 3,480,700	\$ 3,646,869	\$ 166,169
Capital Outlay	1,500	12,661	11,161
	<u>\$ 3,482,200</u>	<u>\$ 3,659,530</u>	<u>\$ 177,330</u>

NOTE 10 – Defined benefit pension plan:

Plan description

Town of Fairfax contributes to the California Public Employees' Retirement System ("PERS"), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the state of California. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding policy

Safety and non-safety employees contributed 9% and 8%, respectively, of their annual covered salary during fiscal 2005. The Town makes the contributions required of Town employees on their behalf and for their account. The Town is required to contribute at an actuarially determined rate; the rate for fiscal 2005 was 42.151% for safety employees and 8.666% for non-safety employees, of annual covered payroll. The contribution requirements of plan members and the Town are established, and may be amended, by PERS.

Annual pension cost

For fiscal 2005, the Town's annual pension cost of \$409,051 for PERS was equal to the Town's required and actual contributions. In addition, the Town contributed \$143,399 related to the employees' required contribution. The Town also contributed \$290,078 toward the Ross Valley Fire Service's annual pension cost. The required contribution was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 3.75% per year payroll growth. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis.

Three-year trend information for PERS

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2003	\$ 165,159	100%	\$ -
6/30/2004	\$ 228,700	100%	\$ -
6/30/2005	\$ 409,051	100%	\$ -

NOTE 11 – Workers' compensation and general liability self-insurance programs:

The Town participates in a joint powers agreement through Bay Cities Joint Powers Insurance Authority ("BCJPIA"), which is a workers' compensation and general liability risk pool. Prior to July 1, 2004, the Town reported all of its risk management activities in its Insurance Internal Service Fund. At the beginning of fiscal 2005, this fund was closed and the account balances were transferred to the General Fund. All 2005 activities were reported in the General Fund. Claims expenditures and liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated.

Bay Cities Joint Powers Insurance Authority ("BCJPIA") was created in 1986 by certain public agencies in the Bay Area to provide auto, general liability and workers' compensation coverage. It is governed by a board of directors which is comprised of officials appointed by each member.

The BCJPIA is an "account pool" as defined by Government Accounting Standards Board Statement No. 10 ("GASB 10"). The BCJPIA manages separate accounts for each pool member. Losses and expenses are paid from these pools above the self-insured retention limit of \$50,000 to \$1,000,000 per occurrence. This is the Primary Liability Program. Annually, the BCJPIA evaluates the financial risk position cash, less claims reserves, claims incurred but not reported ("IBNR") and claims development of each member in the Primary Liability Program. If a member has a negative risk position, as defined by the BCJPIA, its annual assessment is increased.

The BCJPIA purchases excess insurance above the \$1,000,000 limit. This excess insurance provides risk sharing pool coverage for its members of \$1,000,000 up to \$15,000,000 per occurrence. This is the Excess Liability Program.

The Town is a participant in the BCJPIA workers compensation risk pool, which in turn participates in the Local Agency Workers Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool, and LAWCX in turn purchases coverage above the \$2 million coverage provided by its pool. The Town has a self-insured retention limit of \$150,000 for claims, and the BCJPIA pool covers claims from \$150,000 to \$500,000. Claims from \$500,000 to \$2 million are covered by LAWCX. Excess coverage is purchased from an outside insurance carrier up to \$100 million per occurrence.

During the fiscal year ended June 30, 2005, the Town incurred costs of \$149,655 for coverage premiums and administration of the risk pools.

The Town had the following balances at June 30, 2005:

	Workers' Compensation	General Liability	Total
Outstanding claims, end of period	\$ 292,811	\$ 58,243	\$ 351,054
Incurred but not reported	256,234	34,794	291,028
Total liability for unpaid claims	<u>\$ 549,045</u>	<u>\$ 93,037</u>	<u>\$ 642,082</u>
Discounted liabilities	\$ 454,635	\$ 89,342	\$ 543,977
Current portion	192,162	40,394	232,556
Noncurrent portion	<u>\$ 262,473</u>	<u>\$ 48,948</u>	<u>\$ 311,421</u>

As allowed under GASB 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, the Town has recorded discounted liabilities which include the recognition of investment income earned on funds held prior to payout.

All-risk property coverage is also provided through BCJPIA as a separate program. The Town participates in a self-insured pool providing coverage from \$10,000 to \$50,000. Excess insurance is group purchased from the Public Entity Property Insurance Program with a limit of \$500 million per occurrence.

The claim liabilities are recorded in the Town's General Fund.

Audited financial statements may be obtained from the Bay Cities Joint Powers Insurance Authority at 1020 - 19th Street, Sacramento, CA 95814. Condensed audited financial information of BCJPIA at and for the fiscal year ended June 30, 2005 is as follows:

Total assets	\$ 13,090,975
Total liabilities	9,815,445
Net assets	<u>\$ 3,275,530</u>
Total revenues	\$ 9,006,507
Total expenditures	10,481,934
Net loss	<u>\$ (1,475,427)</u>

NOTE 12 – Commitments and contingencies:

Federal, State and Local Financial Assistance

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Department of Transportation, Marin County Congestion Management Agency and the Metropolitan Transportation Commission. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of costs which may be disallowed by the grantors cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Litigation

The Town is a defendant in several lawsuits, which have arisen in the normal course of business. Damages are alleged in some of these actions and their outcome cannot be predicted with certainty. However, in the opinion of the Town Attorney, the outcome of these actions will not have a material adverse effect on the financial position of the Town.

Utility Users' Tax

The Town imposes a utility users' tax on citizens of the Town. The tax rate was previously set at 6 percent, but voters failed to affirm that rate in an election. As a result, the Town directed public utilities to roll back the tax rate to 5 percent. While most complied with this direction, some continued to collect the tax at the higher 6 percent rate. The excess tax collected is reflected as a liability under Utility Users' Tax deposits in the amount of \$114,670 in the accompanying financial statements. The Town Council has not yet determined what the Town will ultimately do with these funds. This amount is included in deferred revenue in the accompanying financial statements.

MERA Obligation

Under the joint powers agreement with the Marin Emergency Radio Authority, the Town is obligated to make payments to MERA for use of MERA's systems. Minimum service payments are estimated to be as follows at June 30, 2005:

<u>Fiscal year ending June 30,</u>	<u>Minimum Service Payments</u>
2006	42,878
2007	42,727
2008	42,687
2009	42,697
2010	42,752
2011-2015	213,571
2016-2020	213,563
2021	42,741
	<u>\$ 683,616</u>

REQUIRED SUPPLEMENTARY INFORMATION

**(BUDGETARY INFORMATION AND
PENSION FUNDING)**

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TOWN OF FAIRFAX**General Fund****Statement of Revenues, Expenditures, and Changes in Fund Balances -
Budget and Actual****For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive/ (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 3,703,000	\$ 3,703,000	\$ 4,096,817	\$ 393,817
Licenses & permits	636,600	636,600	573,442	(63,158)
Intergovernmental revenues	156,200	156,200	178,114	21,914
Charges for services	189,100	189,100	177,444	(11,656)
Fines & forfeitures	102,000	102,000	99,729	(2,271)
Use of money & property	61,000	61,000	83,336	22,336
Miscellaneous	9,000	9,000	33,966	24,966
Total revenues	<u>4,856,900</u>	<u>4,856,900</u>	<u>5,242,848</u>	<u>385,948</u>
EXPENDITURES				
Current:				
General government	696,733	696,733	677,580	19,153
Public safety	3,480,700	3,480,700	3,584,846	(104,146)
Public works and facilities	565,015	565,015	558,961	6,054
Planning & Building	453,900	453,900	430,406	23,494
Parks & recreation	103,475	103,475	93,588	9,887
Debt Service:				
Interest and cost of issuance	26,700	26,700	26,146	554
Capital outlay	1,500	1,500	12,661	(11,161)
Total expenditures	<u>5,328,023</u>	<u>5,328,023</u>	<u>5,384,188</u>	<u>(56,165)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(471,123)</u>	<u>(471,123)</u>	<u>(141,340)</u>	<u>329,783</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Transfers in	1,548,883	1,548,883	1,726,444	177,561
Transfers out	(1,488,683)	(1,488,683)	(1,313,148)	175,535
Total other financing sources (uses)	<u>60,200</u>	<u>60,200</u>	<u>413,296</u>	<u>353,096</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	<u>\$ (410,923)</u>	<u>\$ (410,923)</u>	271,956	<u>\$ 682,879</u>
Fund balances, beginning of year			<u>1,418,067</u>	
Fund balances, end of year			<u>\$ 1,690,023</u>	

TOWN OF FAIRFAX

Pension Plans

Schedule of Funding Progress (Unaudited)

PERS:

Miscellaneous Plan:

Valuation Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability/ (Excess Assets) [(A)-(B)]	Funded Ratio [(B)/(A)]	Covered Payroll	Unfunded Actuarial Liability as a % of Payroll
6/30/2002	\$ 3,238,010	\$ 3,565,220	\$ (327,210)	110.1%	\$ 1,041,205	-31.4%
6/30/2003	\$ 3,857,353	\$ 3,705,848	\$ 151,505	96.1%	\$ 1,112,519	13.6%
6/30/2004			** information not available **			
6/30/2005			** information not available **			

Safety Plan:

Valuation Date	Accrued Liability (A)	Value of Assets (B)	(Excess Assets) [(A)-(B)]	Funded Ratio [(B)/(A)]	Covered Payroll	Liability as a % of Payroll
6/30/2002	\$ 7,710,818	\$ 6,168,810	\$ 1,542,008	80.0%	\$ 646,717	238.4%
6/30/2003	\$ 8,397,705	\$ 6,302,711	\$ 2,094,994	75.1%	\$ 771,146	271.7%
6/30/2004			** information not available **			
6/30/2005			** information not available **			

The actuarial value of assets, liabilities and covered payroll are obtained from the Town of Fairfax's annual actuarial reports. The information for fiscal years after June 30, 2003 is not available and therefore is not included in the above analysis.

SUPPLEMENTARY INFORMATION
GENERAL FUND AND OTHER GOVERNMENTAL FUNDS
COMBINING FINANCIAL STATEMENTS

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TOWN OF FAIRFAX

General Funds

Combining Balance Sheet

June 30, 2005

	General Fund	Dry Period Fund	Equipment Replacement Fund	Building Planning Fund	Office and Communication Replacement Fund	Retirement Fund	Total General Fund
Assets							
Cash and investments	\$ 500,353	\$ 858,056	\$ 247,032	\$ 110,331	\$ 142,623	\$ 109,443	\$ 1,967,838
Receivables:							
Taxes	30,924	-	-	-	-	-	30,924
Accounts	86,566	-	-	8,000	-	-	94,566
Intergovernmental	285,295	-	-	-	-	7,689	292,984
Interest	22,777	-	-	-	-	-	22,777
Deposits	199,210	-	-	-	-	-	199,210
Due from other funds	-	-	-	-	-	-	-
Total Assets	\$ 1,125,125	\$ 858,056	\$ 247,032	\$ 118,331	\$ 142,623	\$ 117,132	\$ 2,608,299
Liabilities and Fund Balances							
Liabilities:							
Accounts payable	\$ 62,886	\$ -	\$ -	\$ 51	\$ 1,891	\$ -	\$ 64,828
Claims payable	232,555	-	-	-	-	-	232,555
Deposits	4,450	-	-	118,280	-	-	122,730
Compensated absences	135,068	-	-	-	-	-	135,068
Deferred Revenue	363,095	-	-	-	-	-	363,095
Due to Other Funds	-	-	-	-	-	-	-
Total liabilities	798,054	-	-	118,331	1,891	-	918,276
Fund balances:							
Reserved	-	-	-	-	-	117,132	117,132
Unreserved	-	-	-	-	-	-	-
Designated	311,422	858,056	247,032	-	140,732	-	1,557,242
Undesignated	15,649	-	-	-	-	-	15,649
Total fund balance	327,071	858,056	247,032	-	140,732	117,132	1,690,023
Total liabilities and fund balances	\$ 1,125,125	\$ 858,056	\$ 247,032	\$ 118,331	\$ 142,623	\$ 117,132	\$ 2,608,299

TOWN OF FAIRFAX**General Funds****Combining Statement of Revenue, Expenditures and Changes in Fund Balances****For the Fiscal Year Ended June 30, 2005**

	General Fund	Dry Period Fund	Equipment Replacement Fund	Building Planning Fund	Office and Communication Replacement Fund	Retirement Fund	Total General Fund
Revenue							
Taxes	\$ 3,296,308	\$ -	\$ -	\$ -	\$ -	\$ 800,509	\$ 4,096,817
Licenses & permits	373,926	-	-	199,516	-	-	573,442
Intergovernmental revenues	166,124	-	-	-	-	11,990	178,114
Charges for services	48,787	-	-	128,657	-	-	177,444
Fines & forfeitures	99,729	-	-	-	-	-	99,729
Use of money & property	80,459	-	-	-	-	2,877	83,336
Miscellaneous	29,966	-	4,000	-	-	-	33,966
Total Revenue	4,095,299	-	4,000	328,173	-	815,376	5,242,848
Expenditures:							
Current:							
General government	677,580	-	-	-	-	-	677,580
Public safety	3,584,846	-	-	-	-	-	3,584,846
Public works and facilities	558,961	-	-	-	-	-	558,961
Planning & Building	430,406	-	-	-	-	-	430,406
Parks & recreation	93,588	-	-	-	-	-	93,588
Debt service:							
Interest and cost of issuance	26,146	-	-	-	-	-	26,146
Capital outlay	-	-	-	-	12,661	-	12,661
Total expenditures	5,371,527	-	-	-	12,661	-	5,384,188
Excess (deficit) of revenues over (under) expenditures	(1,276,228)	-	4,000	328,173	(12,661)	815,376	(141,340)
Other financing sources :							
Proceeds from bond issuance	-	-	-	-	-	-	-
Transfers in	1,722,769	-	-	-	3,675	-	1,726,444
Transfers out	(119,470)	-	(22,977)	(328,173)	-	(842,528)	(1,313,148)
Total other financing sources	1,603,299	-	(22,977)	(328,173)	3,675	(842,528)	413,296
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	327,071	-	(18,977)	-	(8,986)	(27,152)	271,956
Fund balances, July 1, 2004	-	858,056	266,009	-	149,718	144,284	1,418,067
Fund balances, June 30, 2005	\$ 327,071	\$ 858,056	\$ 247,032	\$ -	\$ 140,732	\$ 117,132	\$ 1,690,023

TOWN OF FAIRFAX
Nonmajor Governmental Funds

Other Special Revenue Funds - accounts for revenues derived from specific revenue sources. These funds are required by statute or ordinance to finance particular functions or activities of government.

Other Capital Projects Funds - accounts for financial resources to be used for the acquisition or construction of major capital facilities and equipment other than those financed by proprietary funds. The Town had no nonmajor capital projects funds in fiscal 2005.

Other Debt Service Funds - accounts for financial resources to be used for payment of the Town's long-term debt.

TOWN OF FAIRFAX
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2005

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
ASSETS				
Cash and investments	\$ 5,004	\$ 120,293	\$ 105,399	\$ 230,696
Receivables:				
Taxes	-	-	-	-
Accounts	2,020	-	-	2,020
Intergovernmental receivables	14,484	1,573	-	16,057
Due from other funds	-	-	-	-
Total assets	<u>\$ 21,508</u>	<u>\$ 121,866</u>	<u>\$ 105,399</u>	<u>\$ 248,773</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 493	\$ -	\$ -	\$ 493
Deposits payable	-	-	-	-
Interest Payable	-	-	-	-
Total liabilities	<u>493</u>	<u>-</u>	<u>-</u>	<u>493</u>
Fund balances:				
Reserved	21,015	121,866	105,399	248,280
Unreserved	-	-	-	-
Undesignated	-	-	-	-
Total fund balances	<u>21,015</u>	<u>121,866</u>	<u>105,399</u>	<u>248,280</u>
Total liabilities and fund balances	<u>\$ 21,508</u>	<u>\$ 121,866</u>	<u>\$ 105,399</u>	<u>\$ 248,773</u>

TOWN OF FAIRFAX**Nonmajor Governmental Funds****Statement of Revenues, Expenditures and Changes in Fund Balances****For the Fiscal Year Ended June 30, 2005**

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Total Nonmajor Governmental Funds
REVENUES				
Taxes	\$ -	\$ 159,366	\$ -	\$ 159,366
Licenses & permits	-	-	3,675	3,675
Intergovernmental revenues	398,071	2,421	13,913	414,405
Charges for services	23,449	-	-	23,449
Fines & forfeitures	-	-	-	-
Use of money & property	-	-	-	-
Miscellaneous	33,338	-	-	33,338
Total revenues	<u>454,858</u>	<u>161,787</u>	<u>17,588</u>	<u>634,233</u>
EXPENDITURES				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works and facilities	-	-	4,825	4,825
Parks and recreation	31,805	-	-	31,805
Debt service:				
Principal	-	10,000	-	10,000
Interest	-	119,678	-	119,678
Capital outlay	201,208	-	62,612	263,820
Total expenditures	<u>233,013</u>	<u>129,678</u>	<u>67,437</u>	<u>430,128</u>
REVENUES OVER (UNDER) EXPENDITURES	221,845	32,109	(49,849)	204,105
OTHER FINANCING SOURCES (USES)				
Proceeds from bond issuance	-	-	-	-
Transfers in	10,942	-	40,018	50,960
Transfers out	(250,679)	-	(3,675)	(254,354)
Total other financing sources (uses)	<u>(239,737)</u>	<u>-</u>	<u>36,343</u>	<u>(203,394)</u>
Net change in fund balances	(17,892)	32,109	(13,506)	711
Fund balances, beginning of year	38,907	89,757	118,905	247,569
Fund balances, end of year	<u>\$ 21,015</u>	<u>\$ 121,866</u>	<u>\$ 105,399</u>	<u>\$ 248,280</u>

TOWN OF FAIRFAX
Other Special Revenue Funds

Other Special Revenue Funds are used to account for revenues derived from specific revenue sources. These funds are required by statute or ordinance to finance particular functions or activities of government. The Town's Other Special Revenue Funds are as follows:

Gas Tax Fund - accounts for taxes raised under Street and Highway Code Sections 2106, 2107 and 2107.5, used for the maintenance of town streets.

Special Police Fund - accounts for proceeds received primarily from the State of California for the purchase of technology equipment and to partially offset police personnel costs for specific state programs.

Open Space Fund - accounts for donations to be used for the acquisition of land for open space.

Recreation Fund - accounts for revenues and expenditures for the Town's various recreation activities, which primarily relate to the youth after-school program and the annual festival. Revenues are in the form of county donations and participant fees.

TOWN OF FAIRFAX
Other Special Revenue Funds
Combining Balance Sheet
June 30, 2005

	<u>Gas Tax</u>	<u>Special Police Fund</u>	<u>Open Space Fund</u>	<u>Recreation</u>	<u>Total Other Special Revenue Funds</u>
ASSETS					
Cash and investments	\$ (14,484)	\$ 16,725	\$ (17,950)	\$ 20,713	\$ 5,004
Receivables:					
Taxes	-	-	-	-	-
Accounts	-	-	-	2,020	2,020
Intergovernmental receivables	14,484	-	-	-	14,484
Due from other funds	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 16,725</u>	<u>\$ (17,950)</u>	<u>\$ 22,733</u>	<u>\$ 21,508</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ 493	\$ 493
Deposits payable	-	-	-	-	-
Due to other funds	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>493</u>	<u>493</u>
Fund balances:					
Reserved	-	16,725	(17,950)	22,240	21,015
Unreserved	-	-	-	-	-
Undesignated	-	-	-	-	-
Total fund balances	<u>-</u>	<u>16,725</u>	<u>(17,950)</u>	<u>22,240</u>	<u>21,015</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 16,725</u>	<u>\$ (17,950)</u>	<u>\$ 22,733</u>	<u>\$ 21,508</u>

TOWN OF FAIRFAX**Other Special Revenue Funds****Combining Statement of Revenue, Expenditures and Changes in Fund Balances****For the Fiscal Year Ended June 30, 2005**

	Gas Tax	Special Police Fund	Open Space Fund	Recreation	Total Other Special Revenue Funds
REVENUES					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses & permits	-	-	-	-	-
Intergovernmental revenues	147,871	100,200	150,000	-	398,071
Charges for services	-	-	-	23,449	23,449
Fines & forfeitures	-	-	-	-	-
Use of money & property	-	-	-	-	-
Miscellaneous	-	-	33,338	-	33,338
Total revenues	147,871	100,200	183,338	23,449	454,858
EXPENDITURES					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	-
Public works and facilities	-	-	-	-	-
Parks and recreation	-	-	1,413	30,392	31,805
Debt service:					
Interest and cost of issuance	-	-	-	-	-
Capital outlay	-	-	201,208	-	201,208
Total expenditures	-	-	202,621	30,392	233,013
Excess (deficit) of revenues over (under) expenditures	147,871	100,200	(19,283)	(6,943)	221,845
OTHER FINANCING SOURCES (USES)					
Proceeds from bond issuance	-	-	-	-	-
Transfers in	-	-	1,333	9,609	10,942
Transfers out	(147,871)	(101,475)	-	(1,333)	(250,679)
Total other financing sources (uses)	(147,871)	(101,475)	1,333	8,276	(239,737)
Net change in fund balances	-	(1,275)	(17,950)	1,333	(17,892)
Fund balances, beginning of year	-	18,000	-	20,907	38,907
Fund balances, end of year	\$ -	\$ 16,725	\$ (17,950)	\$ 22,240	\$ 21,015

TOWN OF FAIRFAX

Other Debt Service Fund

Other Debt Service Funds are used to account for financial resources to be used for payment for the Town's long-term debt. The Town's Other Debt Service Fund is:

Measure K Debt Service Series 2000 Fund - accounts for principal and interest payments of the Measure K General Obligation bonds (2000 series).

TOWN OF FAIRFAX
Other Debt Service Funds
Combining Balance Sheet
June 30, 2005

	Measure K Debt Service Series 2000	Total Debt Service Fund
ASSETS		
Cash and investments	\$ 120,293	\$ 120,293
Receivables:		
Taxes	-	-
Accounts	-	-
Intergovernmental	1,573	1,573
Due from other funds	-	-
Total assets	<u>\$ 121,866</u>	<u>121,866</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ -	\$ -
Deposits payable	-	-
Interest payable	-	-
Due to other funds	-	-
Total liabilities	<u>-</u>	<u>-</u>
Fund balances:		
Reserved	121,866	121,866
Unreserved	-	-
Undesignated	-	-
Total fund balance	<u>121,866</u>	<u>121,866</u>
Total liabilities and fund balances	<u>\$ 121,866</u>	<u>\$ 121,866</u>

TOWN OF FAIRFAX

Other Debt Service Funds

Combining Statement of Revenues, Expenditures and Changes in Fund Balances

For the Fiscal Year Ended June 30, 2005

	Measure K Debt Service Series 2000	Total Debt Service Fund
REVENUES		
Taxes	\$ 159,366	\$ 159,366
Licenses & permits	-	-
Intergovernmental revenues	2,421	2,421
Charges for services	-	-
Fines & forfeitures	-	-
Use of money & property	-	-
Miscellaneous	-	-
Total revenues	<u>161,787</u>	<u>161,787</u>
EXPENDITURES		
Current:		
General government	-	-
Public safety	-	-
Public works and facilities	-	-
Parks & recreation	-	-
Debt service:		
Principal	10,000	10,000
Interest	119,678	119,678
Capital outlay	-	-
Total expenditures	<u>129,678</u>	<u>129,678</u>
Excess (deficit) of revenues over (under) expenditures	<u>32,109</u>	<u>32,109</u>
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Net change in fund balances	32,109	32,109
Fund balances, beginning of year	89,757	89,757
Fund balances, end of year	<u>\$ 121,866</u>	<u>\$ 121,866</u>

TOWN OF FAIRFAX

Other Capital Projects Funds

Other Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities, infrastructure, and equipment other than those financed by proprietary funds. The Town's Other Capital Projects Funds are as follows:

Grants Fund - accounts for capital projects whereby partial funding is provided by federal, state and county grants or contributions

Creek Restoration Fund - accounts for capital projects related specifically to creek restoration.

Town Fund - accounts for capital projects sourced by certain tax revenues and other funds allocated from the general fund.

TOWN OF FAIRFAX

Other Capital Project Funds

Combining Balance Sheet

June 30, 2005

	<u>Grants Fund</u>	<u>Creek Restoration</u>	<u>Town Fund</u>	<u>Total Capital Projects</u>
<u>Assets</u>				
Cash and investments	\$ -	\$ 105,399	\$ -	\$ 105,399
Receivables:				
Taxes	-	-	-	-
Accounts	-	-	-	-
Intergovernmental receivables	-	-	-	-
Due from other funds	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 105,399</u>	<u>\$ -</u>	<u>\$ 105,399</u>
<u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deposits payable	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund balances:</u>				
Reserved	-	105,399	-	105,399
Unreserved	-	-	-	-
Undesignated	-	-	-	-
Total fund balance	<u>-</u>	<u>105,399</u>	<u>-</u>	<u>105,399</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 105,399</u>	<u>\$ -</u>	<u>\$ 105,399</u>

TOWN OF FAIRFAX**Other Capital Projects Funds****Combining Statement of Revenues, Expenditures and Changes in Fund Balances****For the Fiscal Year Ended June 30, 2005**

	<u>Grants Fund</u>	<u>Creek Restoration</u>	<u>Town Fund</u>	<u>Total Capital Projects</u>
<u>Revenue</u>				
Taxes	\$ -	\$ -	\$ -	\$ -
Licenses & permits	-	-	3,675	3,675
Intergovernmental revenues	13,913	-	-	13,913
Charges for services	-	-	-	-
Fines & forfeitures	-	-	-	-
Use of money & property	-	-	-	-
Miscellaneous	-	-	-	-
Total revenue	<u>13,913</u>	<u>-</u>	<u>3,675</u>	<u>17,588</u>
<u>Expenditures:</u>				
Current:				
General government	-	-	-	-
Public safety	-	-	-	-
Public works and facilities	-	-	4,825	4,825
Parks & recreation	-	-	-	-
Debt service:				
Interest and cost of issuance	-	-	-	-
Capital outlay	40,407	17,508	4,697	62,612
Total expenditures	<u>40,407</u>	<u>17,508</u>	<u>9,522</u>	<u>67,437</u>
Excess (deficit) of revenues over (under) expenditures	<u>(26,494)</u>	<u>(17,508)</u>	<u>(5,847)</u>	<u>(49,849)</u>
<u>Other financing sources :</u>				
Proceeds from bond issuance	-	-	-	-
Transfers in	26,494	4,002	9,522	40,018
Transfers out	-	-	(3,675)	(3,675)
Total other financing sources	<u>26,494</u>	<u>4,002</u>	<u>5,847</u>	<u>36,343</u>
Excess (deficit) of revenues and other sources over (under) expenditures and other uses	-	(13,506)	-	(13,506)
Fund balances, July 1, 2004	-	118,905	-	118,905
Fund balances, June 30, 2005	<u>\$ -</u>	<u>\$ 105,399</u>	<u>\$ -</u>	<u>\$ 105,399</u>

TOWN OF FAIRFAX

Internal Service Funds

Internal Service Funds are used to finance and account for special activities and services performed by a designated department for other departments within the same town on a cost reimbursement basis.

Insurance Internal Service Fund - accounts for the self-insured portion of the Town's workers' compensation, general liability and property insurance programs. In the beginning of fiscal year 2005, all balances were transferred to the General Fund and all activities for the year were recorded in the General Fund.

TOWN OF FAIRFAX
Internal Service Funds
Combining Statement of Net Assets
June 30, 2005

	<u>Insurance</u>	<u>Total Internal Service Funds</u>
ASSETS		
Cash and investments	\$ -	\$ -
Receivables:		
Accounts	-	-
Intergovernmental receivables	-	-
Due from other funds	-	-
Deposits	-	-
Total current assets	<u>-</u>	<u>-</u>
Capital assets, net	<u>-</u>	<u>-</u>
Total assets	<u>-</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable	-	-
Claims payable	-	-
Deposits payable	-	-
Due to other funds	-	-
Total current liabilities	<u>-</u>	<u>-</u>
Noncurrent liabilities:		
Claims payable	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>
NET ASSETS		
Fund balances:		
Reserved	-	-
Unreserved	-	-
Undesignated	-	-
Total net assets	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FAIRFAX
Internal Service Funds
Combining Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2005

	<u>Insurance</u>	<u>Total Internal Service Funds</u>
REVENUES		
Charges for services	\$ -	\$ -
Miscellaneous	-	-
Total revenues	<u>-</u>	<u>-</u>
EXPENSES		
Salaries and benefits	-	-
General service and supplies	-	-
Insurance claims	-	-
Depreciation and amortization	-	-
Miscellaneous	-	-
Total expenses	<u>-</u>	<u>-</u>
Operating income (loss)	<u>-</u>	<u>-</u>
Nonoperating revenues (expenses)		
Interest income	-	-
Total nonoperating revenue (expenses)	<u>-</u>	<u>-</u>
Net income (loss) before transfers	-	-
OTHER FINANCING SOURCES (USES)		
Transfers in	101,100	101,100
Transfers out	(311,002)	(311,002)
	<u>(209,902)</u>	<u>(209,902)</u>
Change in net assets	(209,902)	(209,902)
Net assets, beginning of year	(37,668)	(37,668)
Change in accounting	247,570	247,570
Net assets, end of year	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FAIRFAX

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.

Pavilion Renovation Fund - accounts for assets held by the Town to be used for renovation of the Pavilion.

TOWN OF FAIRFAX

Agency Fund

Balance Sheet

June 30, 2005

	<u>Pavilion Renovation Fund</u>	<u>Total Agency Fund</u>
<u>Assets</u>		
Cash and investments	\$ 146,093	\$ 146,093
Due from other funds	-	-
Total assets	<u>\$ 146,093</u>	<u>\$ 146,093</u>
<u>Liabilities and Fund Balances</u>		
Liabilities:		
Accounts payable	\$ -	\$ -
Deposits	146,093	146,093
Due to other funds	-	-
Total liabilities	<u>146,093</u>	<u>146,093</u>
Fund balances:		
Reserved	-	-
Unreserved	-	-
Undesignated	-	-
Total fund balance	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 146,093</u>	<u>\$ 146,093</u>