

# Town of Fairfax

Fairfax, California

*Basic Financial Statements and  
Independent Auditors' Report*

*For the year ended June 30, 2006*

**C&L**  
Caporicci & Larson  
Certified Public Accountants



# Town of Fairfax

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fairfax, California (Town), as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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, such basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2006, and the respective changes in financial position where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the Town adopted Statement of the Governmental Accounting Standards Board No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*, No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*.

The accompanying Required Supplementary Information, such as management's discussion and analysis and other information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental 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.

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**Orange County**

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Irvine, California 92606

**Sacramento**

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Sacramento, California 95825

**San Diego**

4858 Mercury, Suite 106  
San Diego, California 92111

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The accompanying supplementary information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Capricci & Carson*

Oakland, California  
April 27, 2007

# 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, 2006. 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 \$9,667,754, liabilities of \$5,992,456 and net assets of \$3,675,298 at June 30, 2006. This compares with assets of \$10,400,778, liabilities of \$6,345,570 and net assets of \$4,055,208 at June 30, 2005.
- 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 \$379,910 for the fiscal year ended June 30, 2006 as compared to a decrease of \$186,725 for the fiscal year ended June 30, 2005. The majority of the larger decrease in net assets is due to the depreciation of the valuation of the Town's infrastructure improvements and other capital assets. Revenues for fiscal 2006 increased by \$1,226,333 from the prior year primarily due to higher property taxes, the first year of receipts under the Measure F special tax, flood insurance, and disaster funding reimbursements. Expenses for the same period increased by \$1,015,770, mainly as a result of the clean-up activities resulting from the floods.
- The Town's net capital assets, net of related debt, totaled \$1,243,266 at June 30, 2006, compared with \$1,852,838 at June 30, 2005.
- The Town's long-term debt (including current portion) totaled \$4,965,000 as of June 30, 2006, which includes the outstanding balance on the Measure K bonds. Additionally, the Town has accrued \$456,254 of non-current claims payable which includes a carry-over of \$311,422 and an additional \$144,832 accrued in FY 05-06 (*see Note 8.B to the Basic Financial Statements*).

### FUND HIGHLIGHTS

At the close of fiscal year 2006, the Town's governmental funds reported a combined ending fund balance of \$2,592,790, as compared to \$2,433,884 at June 30, 2005. 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 2005-2006, the Town accomplished the following:

- Due to the experience of a flood disaster at mid-year on December 31, 2005, the Town was required to respond and provide immediate emergency clean-up and assessment of damage to Town properties. Planned Capital Improvement Projects were deferred due to the immediate need to react to the disaster. The Town was active in the regional efforts to respond to the disaster through the Office of Emergency Services (OES) and the Federal Emergency Management Agency (FEMA). The Town sustained \$1.5 million in damage to public infrastructure and facilities. As of March 2007, the Town had received \$704,000 in reimbursements and project advances from the OES, FEMA, and the National Flood Insurance Program (NFIP).
- The Town became active in a regional flood control and watershed protection effort, the Ross Valley Flood Protection and Watershed Program. This program has emerged through the leadership of the County of Marin, and seeks to leverage local funding to secure state and federal funding for improvements to the Ross Valley watershed to mitigate future flooding.
- The Town received the first year of taxes under a new five-year special municipal services tax. Measure F provides approximately \$465,000 per year for police and fire services, public works safety improvements and grant matching funds, and the after-school youth program.
- The Town Council initiated an intensive Strategic Planning effort, which involved a series of public meetings to discuss and receive input on ideas and methods for increasing revenue to the Town and implementing structural reductions to expenditures, to begin to address the sunset of the Measure F tax in 2010.

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

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

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

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

- Gas Tax Fund
- Special Police Fund
- Open Space Fund
- Recreation Fund
- Measure F Municipal Services Fund
- Capital Projects Measure K Fund

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

- Grants Fund
- Creek Restoration Fund
- Town Fund

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

- Measure K Debt Service Series 2000 Fund
- Measure K Debt Service Series 2002 Fund

### *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 third 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
	2006	2005	
Cash and investments	\$ 3,015,744	\$ 2,690,573	12.1%
Capital assets, net	6,198,190	6,857,838	-9.6%
Other assets	453,820	852,367	-46.8%
<b>Total assets</b>	<b>9,667,754</b>	<b>10,400,778</b>	<b>-7.0%</b>
Current liabilities	777,541	1,069,149	-27.3%
Non-current liabilities	5,214,915	5,276,421	-1.2%
<b>Total liabilities</b>	<b>5,992,456</b>	<b>6,345,570</b>	<b>-5.6%</b>
Invested in capital assets, net	1,243,266	1,852,838	-32.9%
Restricted	635,757	860,993	-26.2%
Unrestricted	1,796,275	1,341,377	33.9%
<b>Net assets</b>	<b>\$ 3,675,298</b>	<b>\$ 4,055,208</b>	<b>-9.4%</b>

Net assets invested in capital assets (e.g. land, buildings, equipment, and infrastructure) of \$1,243,266 at the end of fiscal year 2006 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 \$635,757 at the end of fiscal 2006 represent resources that are subject to external restrictions on how they may be used. The remaining unrestricted net assets balance of \$1,796,275 may be used to finance day-to-day operations without constraints.

### *Changes in Net Assets*

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

	Governmental Activities		Percentage Change
	2006	2005	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 906,657	\$ 877,739	3.3%
Operating grants & contributions	-	100,200	-100.0%
Capital grants & contributions	303,970	163,913	85.4%
General revenues:			
Taxes	5,603,586	4,459,013	25.7%
Intergovernmental	-	331,487	-100.0%
Contributions	249,798	-	-
Use of money & property	115,571	95,252	21.3%
Miscellaneous	141,659	67,304	110.5%
<b>Total revenues</b>	<b>7,321,241</b>	<b>6,094,908</b>	<b>20.1%</b>
<b>Expenses:</b>			
General government	792,748	708,985	11.8%
Public safety	3,504,055	3,686,633	-5.0%
Public works	2,304,821	1,024,949	124.9%
Planning & Building	483,857	434,562	11.3%
Parks and recreation	343,317	126,331	171.8%
Interest on long-term debt	272,353	300,173	-9.3%
<b>Total expenses</b>	<b>7,701,151</b>	<b>6,281,633</b>	<b>22.6%</b>
<b>Change in net assets</b>	<b>(379,910)</b>	<b>(186,725)</b>	
Net assets - beginning of year	4,055,208	4,241,933	
Net assets - end of year	\$ 3,675,298	\$ 4,055,208	-9.4%

Net assets decreased \$379,910 during the fiscal year ended June 30, 2006, due to the depreciation of capital assets. Total revenues for fiscal year 2006 were \$7,321,241, as compared to \$6,094,908 for fiscal year 2005. The approximately \$1,226,000 increase in revenues is mainly attributed to realization of the first year of revenues from Measure F (\$466,500), higher revenue from pension taxes due to increased property tax values (\$70,000), property taxes associated with higher assessed property values (\$175,000), excess Educational Revenue Augmentation Fund ("ERAF") distributions (\$90,000), an increase in property tax in lieu of Vehicle License Fess, as expected (\$170,000), increased planning, building, business license fees (\$160,000) in the Charges for Services category, an additional \$20,000 net across other miscellaneous categories, and flood disaster related reimbursements. The change in Vehicle License Fee ("VLF") Backfill payments by the State in over the past couple of years have resulted in VLF Backfill payments that are distributed as supplemental property taxes and will change in proportion to the growth in gross assessed property valuation.

Total expenses for the year ended June 30, 2006 were \$7,701,151, compared with \$6,281,633 for the same period in 2005. The approximate \$1,420,000 increase in expenses primarily reflects \$950,000 expended during the floods in clean-up activities. The balance of the increase over the previous fiscal year can be attributable to the expenditure of the first year of Measure F funds. Approximately \$466,500 was collected through the voter approved parcel tax, and was then expended for police and fire services, public safety improvements, public works matching grants, and youth programs.

## ANALYSIS OF MAJOR GOVERNMENTAL FUNDS

### *General Fund*

In summary, the actual General Fund excess of revenues and net transfers over expenditures for fiscal year 2005-2006 (FY 05-06) was \$149,173, as compared to the budgeted deficiency of \$528,529 (see *Budgetary Comparison Schedule, General Fund* under the **Required Supplementary Information**). 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, 2006 was \$1,974,264 versus the budgeted balance of \$1,296,562.

General Fund revenue during the FY 05-06 year totaled \$6,089,241, which was more than the final budgeted amount by \$791,041, or 14.9%. This revenue increase primarily relates to receipt of the first year of Measure F revenues and flood related disaster reimbursements, along with a combination of revenue increases in property taxes and pension taxes which are both property tax based, ERAF allocations, interest, and service fees.

General Fund expenditures for FY 05-06 totaled \$6,467,030, and were higher than the final budgeted amount by \$640,301, or 11.0%. Clean-up activities after the storms resulted in significant, unanticipated expenditures (\$950,000). Vacancies, lower workers' compensation claims, and fewer public works projects tempered the increased spending from the flood.

### *Measure K Debt Service Series Funds*

The Measure K Debt Service Series 2000 Fund balance increased by \$40,569 to \$162,430 at June 30, 2006.

The Measure K Debt Service Series 2002 Fund balance increased by \$52,190 to \$228,660 at June 30, 2006.

The Measure K Debt Service Series 2000 Fund revenues totaled \$174,590 for FY 05-06 and exceeded budget because of higher property assessed values than budgeted.

The Measure K Debt Service Series 2002 Fund revenues totaled \$222,224 for FY 05-06 and exceeded budget because of higher property assessed values than budgeted.

In sum, revenues for the Measure K Debt Service Series 2000 and 2002 exceeded budget by \$79,840.

Principal and interest payments on the Series 2000 Measure K bonds totaled \$15,000 and \$119,021, respectively; actual equaled budgeted.

Principal and interest payments on the Series 2002 Measure K bonds totaled \$25,000 and \$145,033, respectively; actual equaled budgeted.

### *Capital Projects Measure K Fund*

The Capital Projects Measure K Fund was expended by \$308,182 to \$10,929 at June 30, 2006 thereby exhausting virtually all of the funds budgeted for Measure K capital projects. The budgeted amount for Measure K projects for FY 05-06 was \$314,468.

## ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

At the end of Fiscal Year 2005-06, the Town Council negotiated memoranda of understanding with all its employee groups, providing for fair salary and benefit increases to enhance recruitment and retention of staff. These multi-year agreements allow the Town to budget predictably over the next two years, and provide staff with incentives for retention. Nevertheless, in Fiscal Year 2006-07 the Town still experienced the continued necessity to stem the growth of expenditures, and thus one Police Officer position and one Administrative Assistant position remain frozen and unfilled. The Town is currently pursuing various means of minimizing employee benefit cost growth.

The Town ended the Fiscal Year 2005-06 in a positive fiscal situation, despite the devastating effect the flood disaster had on the Town's physical and financial assets. The Town began Fiscal Year 2006-07 with many FEMA projects still incomplete or awaiting the results of state and federal funding applications for reimbursement.

As a result of the flood disaster, class action flood lawsuits were filed, naming the Town of Fairfax as one of several government agency defendants who were, according to the claims, allegedly negligent in flood control and thus responsible for the financial impact of the flood disaster. The total of the flood lawsuits is approximately \$800 million. The Town is a member of the Bay Cities Joint Powers Insurance Authority, which has several layers of coverage. A specialist attorney is representing the Town and other entities in this legal challenge. At this time, the flood lawsuits are pending and their potential outcome and financial impact on the Town is not known.

Reimbursement for the Town's remaining flood disaster projects is uncertain, and exists as one threat to the Town's financial stability over the near term. The Town has already taken steps, prior to implementing Measure F, to reduce expenditures. The variety of remaining choices for the Town is limited, and requires thorough analysis and planning. Overall, the Town needs to proceed over the near future with caution and mindfulness of the threats to its financial stability.

## REQUESTS FOR INFORMATION

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

Ian Roth  
Finance Director  
Town of Fairfax  
142 Bolinas Road  
Fairfax, CA 94930  
415-458-2350

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# BASIC FINANCIAL STATEMENTS

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**Town of Fairfax**  
**Statement of Net Assets**  
**June 30, 2006**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 3,015,744
Receivables (net of allowances):	
Accounts	56,767
Taxes	109,080
Interest	38,085
Total current assets	<u>3,219,676</u>
Noncurrent assets:	
Capital assets:	
Nondepreciable	249,888
Depreciable, net	6,198,190
Total capital assets	<u>6,448,078</u>
Total assets	<u>9,667,754</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	186,054
Utility users' tax deposits payable	114,670
Accrued payroll	60,950
Unearned revenue	120,380
Interest payable	109,666
Long-term debt - due within one year	50,000
Unamortized bond discount	(9,011)
Claims payable - due within one year	144,832
Total current liabilities	<u>777,541</u>
Noncurrent liabilities:	
Long-term debt - due in more than one year	4,915,000
Unamortized bond discount	(172,265)
Claims payable - due in more than one year	311,422
Compensated absences payable	160,758
Total noncurrent liabilities	<u>5,214,915</u>
Total liabilities	<u>5,992,456</u>
<b>NET ASSETS</b>	
Investment in capital assets, net of related debt	<u>1,243,266</u>
Restricted for:	
Capital projects	73,388
Debt service	391,095
Community development	17,231
Special projects and programs	154,043
Total restricted	<u>635,757</u>
Unrestricted	<u>1,796,275</u>
Total net assets	<u>\$ 3,675,298</u>

**Town of Fairfax**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues			Governmental Activities Net (Expenses) Revenues
		Charges for Services	Capital Grants and Contributions	Total	
<b>Primary government:</b>					
<b>Governmental activities:</b>					
General government	\$ 792,748	\$ 246,029	\$ 303,970	\$ 549,999	\$ (242,749)
Public safety	3,504,055	14,921	-	14,921	(3,489,134)
Public works	2,304,821	178,989	-	178,989	(2,125,832)
Planning and building	483,857	445,508	-	445,508	(38,349)
Parks and recreation	343,317	21,210	-	21,210	(322,107)
Interest and fiscal charges	272,353	-	-	-	(272,353)
<b>Total governmental activities</b>	<b>\$ 7,701,151</b>	<b>\$ 906,657</b>	<b>\$ 303,970</b>	<b>\$ 1,210,627</b>	<b>(6,490,524)</b>

**General revenues:**

Taxes:

Property taxes	3,434,984
Sales taxes	474,950
Special assessments	1,524,222
Other taxes	169,430
<b>Total taxes</b>	<b>5,603,586</b>

Contributions	249,798
Investment earnings	115,571
Miscellaneous	141,659
<b>Total general revenues</b>	<b>6,110,614</b>
<b>Change in net assets</b>	<b>(379,910)</b>
<b>Net assets - beginning of year</b>	<b>4,055,208</b>
<b>Net assets - end of year</b>	<b>\$ 3,675,298</b>

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# GOVERNMENTAL FUNDS

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## *General Fund*

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The major revenue sources for this fund are property taxes, sales taxes, unrestricted revenues from the State, fines and forfeitures, and interest income. Expenditures are made for administration, legislation, public safety, planning, building, public works and parks, and other services.

**Town of Fairfax**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2006**

	<u>Major Fund</u>		
	General	Non-major	
	Fund	Governmental	Total
		Funds	
<b>ASSETS</b>			
Cash and investments	\$ 2,425,690	\$ 590,054	\$ 3,015,744
Receivables (net of allowances):			
Accounts	24,416	32,351	56,767
Taxes	105,628	3,452	109,080
Interest	38,035	50	38,085
Due from other funds	132,126	192,045	324,171
<b>Total assets</b>	<u>\$ 2,725,895</u>	<u>\$ 817,952</u>	<u>\$ 3,543,847</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 120,154	\$ 65,900	\$ 186,054
Utility users' tax deposits payable	114,670	-	114,670
Accrued payroll	60,950	-	60,950
Deposits payable	120,380	-	120,380
Claims payable	144,832	-	144,832
Due to other funds	190,645	133,526	324,171
<b>Total liabilities</b>	<u>751,631</u>	<u>199,426</u>	<u>951,057</u>
<b>Fund Balances:</b>			
Reserved for:			
Special projects	328,058	154,043	482,101
Capital projects	415,727	391,095	806,822
Debt service	-	73,388	73,388
Unreserved, undesignated reported in:			
General fund	1,230,479	-	1,230,479
<b>Total fund balances</b>	<u>1,974,264</u>	<u>618,526</u>	<u>2,592,790</u>
<b>Total liabilities and fund balances</b>	<u>\$ 2,725,895</u>	<u>\$ 817,952</u>	<u>\$ 3,543,847</u>

**Town of Fairfax**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2006**

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**Total Fund Balances - Total Governmental Funds** **\$ 2,592,790**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Non-depreciable capital assets	249,888
Depreciable capital assets, net ( net of internal service fund assets of \$304,639)	6,198,190

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.

(109,666)

Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.

Long-term debt - due within one year	(50,000)
Long-term liabilities - due in more than one year:	(4,915,000)
Unamortized bond discount	181,276
Claims payable - due in more than one year	(311,422)
Compensated absences payable	(160,758)

**Net Assets of Governmental Activities** **\$ 3,675,298**

**Town of Fairfax**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2006**

	Major Fund		
	General Fund	Other Governmental Funds	Total
<b>REVENUES:</b>			
Property taxes	\$ 3,434,984	\$ -	\$ 3,434,984
Special assessments	660,908	863,314	1,524,222
Sales tax	474,950	-	474,950
Permits, licenses and fees	498,204	320	498,524
Fines, forfeitures and penalties	75,751	-	75,751
From other agencies	212,989	340,779	553,768
Motor vehicle in-lieu fees	169,430	-	169,430
Franchise fees	246,029	-	246,029
Service charges	141,215	23,653	164,868
Use of money and property	111,637	3,934	115,571
Other revenue	63,144	-	63,144
<b>Total revenues</b>	<b>6,089,241</b>	<b>1,232,000</b>	<b>7,321,241</b>
<b>EXPENDITURES:</b>			
Current:			
General government	780,542	-	780,542
Public safety	3,455,867	-	3,455,867
Public works	1,439,799	489,966	1,929,765
Planning and building	483,857	-	483,857
Parks and recreation	306,965	36,352	343,317
Debt service:			
Principal	-	40,000	40,000
Interest and fiscal charges	-	264,055	264,055
<b>Total expenditures</b>	<b>6,467,030</b>	<b>830,373</b>	<b>7,297,403</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(377,789)</b>	<b>401,627</b>	<b>23,838</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers in	1,880,274	75,538	1,955,812
Transfers out	(1,353,312)	(602,500)	(1,955,812)
<b>Total other financing sources (uses)</b>	<b>526,962</b>	<b>(526,962)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>149,173</b>	<b>(125,335)</b>	<b>23,838</b>
<b>FUND BALANCES:</b>			
Beginning of year	1,690,023	743,861	2,433,884
Prior period adjustment	135,068	-	135,068
Beginning of year, as restated	1,825,091	743,861	2,568,952
End of year	<b>\$ 1,974,264</b>	<b>\$ 618,526</b>	<b>\$ 2,592,790</b>

# 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 year ended June 30, 2006

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Net Change in Fund Balances - Total Governmental Funds \$ 23,838

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. This is the amount by which capital asset additions recorded in the current period exceeds depreciation. 40,107

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (449,867)

Long-term compensated absences are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, long-term compensated absences are not reported as expenditures in governmental funds. The program expenses are adjusted for the current year net change in compensated absences. (25,690)

Repayment of bond principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.

Long-term debt repayment: 40,000  
Amortatization of bond discount (9,011)

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in governmental funds. The following amount represents the change in accrued interest from prior year. 713

Change in Net Assets of Governmental Activities \$ (379,910)

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# FIDUCIARY FUNDS

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Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations. They are used to account for assets held in an agency capacity for others and therefore cannot be used to support the Town's programs.

**Town of Fairfax**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2006**

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	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and investments	\$ 152,357
<b>Total assets</b>	<u>\$ 152,357</u>
<b>LIABILITIES</b>	
Special Deposits	<u>152,357</u>
<b>Total liabilities</b>	<u>\$ 152,357</u>

**Town of Fairfax**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2006**

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**1. SIGNIFICANT ACCOUNTING POLICIES**

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

**A. Financial Reporting Entity**

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

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

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

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

**Government-Wide Financial Statements**

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

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

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

**Government-Wide Financial Statements, Continued**

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

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

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

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

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Town has presented all major funds that met the applicable criteria.

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

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

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

**Governmental Fund Financial Statements, Continued**

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

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

**Fiduciary Fund Financial Statements**

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

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

In the government-wide financial statements, interest payable of long-term debt is recognized as the liability is incurred for governmental fund types and business type activities.

In the fund financial statements, proprietary fund types recognize the interest payable when the liability is incurred.

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

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

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

The Town pools cash and investments from all sources, for the purpose of increasing income through investment activities. Interest income on investments is allocated on the basis of average month-end cash and investment balances in each fund. Cash and cash equivalents represent cash and investments and restricted cash and investments with an original maturity term of three months or less. Pooled cash and investments allocated to proprietary fund types are considered cash and cash equivalents since specific investments held in the Town's pooled cash and investments are not allocated to each fund.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

The Town invests in the California Local Agency Investment Fund ("LAIF"), which is part of the Pooled Money Investment Account operated by the California State Treasurer. LAIF funds are invested in high quality money market securities and are managed to insure the safety of the portfolio. A portion of LAIF's investments are in structured notes and asset-backed securities. As of June 30, 2006 LAIF had invested 4.76% of its funds in such securities.

LAIF determines fair value on its investment portfolio based on market quotations for these securities where market quotations are readily available, and on amortized cost or best estimate for those securities where market value is not readily available.

In accordance with GASB Statement No. 31, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentrations of Credit Risk
- Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

*F. Capital Assets*

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

Buildings	40 Years
Improvements other than buildings	20 years
Machinery and equipment	5-20 years
Infrastructure	20-50 years

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

***F. Capital Assets, Continued***

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

GASB Statement No. 34 requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the Town has included the value of all improved infrastructure in the basic financial statements.

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

For all infrastructure systems, the Town elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. Estimated historical costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the estimated historical cost.

***G. Compensated Absences***

**Government-Wide Financial Statements**

For governmental and business-type activities, compensated absences are recorded as incurred and the related expenses and liabilities are reported.

**Fund Financial Statements**

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

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

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

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

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

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

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

55% remitted on December 15  
40% remitted on April 15  
5% remitted on June 15

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

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

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

**J. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires Town management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

**K. Net Assets**

**Government-Wide Financial Statements**

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

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

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

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

**Fund Financial Statements**

Reservation of fund balances of governmental funds and retained earnings of proprietary funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

**L. Implementation of New GASB Pronouncements**

In 2006, the Town adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* - The Statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation* - The Statement addresses selected issues and amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specifies accounting and financial reporting requirements for restricted net assets.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**1. SIGNIFICANT ACCOUNTING POLICIES, Continued**

*L. Implementation of New GASB Pronouncements, Continued*

- GASB Statement No. 47, *Accounting for Termination Benefits* – The Statement provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

**2. CASH AND INVESTMENTS**

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

*A. Cash Deposits*

At June 30, 2006, the carrying amount of the Town's deposits was \$350,810. Bank balances before reconciling items were \$404,245 at that date, the total amount of which was collateralized or insured with securities held by the pledging financial institutions in the Town's name as discussed below.

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

According to California law, the market value of pledged securities with banking institutions must equal at least 110% of the Town's cash deposits. California law also allows institutions to secure Town deposits by pledging first trust deed mortgage notes having a value of 150% of the Town's total cash deposits. The Town may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation. The Town, however, has not waived the collateralization requirements.

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

*B. Investments*

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

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

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**2. CASH AND INVESTMENTS, Continued**

***B. Investments, Continued***

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

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Pools*, investments were stated at fair value using the aggregate method in all funds and component units, resulting in the following investment income:

Realized gain/(loss) on matured/sold investments	\$	-
Unrealized gain/(loss) in changes in fair value of investments		(5,121)
		<u>(5,121)</u>
Net gain/(loss)		(5,121)
Interest income		120,692
		<u>120,692</u>
Total investment income	\$	<u><u>115,571</u></u>

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that had been held for more than one fiscal year that matured or were called/sold in the current year were included as a change in the fair value of investments reported in the prior year(s) and the current year.

***C. Summary of Cash and Investments***

The following is a summary of cash and investments at June 30, 2006:

	<u>Wide Statement of Net Assets</u>	Fiduciary Funds	
	Governmental Activities	Statement of Net Assets	Total
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Cash and investments	3,015,744	152,357	3,168,101
	<u><u>3,015,744</u></u>	<u><u>152,357</u></u>	<u><u>3,168,101</u></u>

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**2. CASH AND INVESTMENTS, Continued**

*C. Summary of Cash and Investments, Continued*

Deposits and investments were categorized as follows at June 30, 2006:

	Credit Quality Ratings	Fair Value	Days to Maturity
<b>Town Treasury Deposits:</b>			
Deposits	Not Rated	\$ 350,510	N/A
Petty cash	Not Rated	300	N/A
<b>Total City treasury deposits</b>		<u>350,810</u>	
<b>Town Treasury Investments:</b>			
Local Agency Investment Funds	Not Rated	2,817,291	184
<b>Total Town treasury investments</b>		<u>2,817,291</u>	
<b>Total cash and investments</b>		<u>\$ 3,168,101</u>	

**D. Risk Disclosures**

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

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

The Town's investments with the Local Agency Investment Fund (LAIF), a State of California investment pool, at June 30, 2006, included a portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2006, the Town had \$2,817,291 invested in LAIF, which had invested 4.76% of the pool investment funds in Structured Notes and Asset-Backed Securities. The Town valued its investments in LAIF as of June 30, 2005, by multiplying its account balance with LAIF by a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of .998185821.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**2. CASH AND INVESTMENTS, Continued**

**E. Summary of Investments to Maturity**

Investments held in the Town grouped by maturity date at June 30, 2005 were as follows:

<u>Maturity</u>	
Current to one year	\$ 2,817,291
<b>Total</b>	<b>\$ 2,817,291</b>

**3. INTERFUND TRANSACTIONS**

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

At June 30, 2006, the Town had the following short-term receivables and payables:

		<b>Due To Other Funds</b>		
		Non-Major Governmental		
		General	Funds	Total
<b>Due From Other Funds</b>	General Fund	\$ -	\$ 132,126	\$ 132,126
	Non-Major Governmental Funds	190,645	1,400	192,045
	<b>Total</b>	<b>\$ 190,645</b>	<b>\$ 133,526</b>	<b>\$ 324,171</b>

The Town has recorded due from/due to all funds requiring cash at June 30, 2006. The short-term loans will be repaid during fiscal year 2007 as cash receipts are collected for those specific funds.

**B. Interfund Transfers**

Transfers during the fiscal year ended June 30, 2006, comprised the following:

		<b>Transfers Out</b>		
		Governmental Funds		
		Non-major Governmental		
		General Fund	Funds	Total
<b>Transfers In</b>	General Fund	\$ 1,326,262	\$ 554,012	\$ 1,880,274
	Non-Major Governmental Funds	27,050	48,488	75,538
	<b>Total</b>	<b>\$ 1,353,312</b>	<b>\$ 602,500</b>	<b>\$ 1,955,812</b>

Transfers to the General Fund were for administrative costs and claims liabilities.

Transfers to the Non-Major Governmental Funds were for administrative costs, capital projects and special projects.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**4. CAPITAL ASSETS**

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

Capital assets include land, buildings, and equipment used in Town operations. Infrastructure includes roads, bridges, curbs, sidewalks, drainage systems, street and traffic lights, park improvements and other improvements used by all citizens.

**A. Government-Wide Financial Statements**

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

	Balance July 1, 2005	Additions	Retirements	Balance June 30, 2006
<b>Governmental Activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 249,888	\$ -	\$ -	\$ 249,888
Construction in progress	-	-	-	-
Total nondepreciable assets	<u>249,888</u>	<u>-</u>	<u>-</u>	<u>249,888</u>
Capital assets, being depreciated:				
Buildings	341,183	-	-	341,183
Other improvements	270,844	-	-	270,844
Vehicles	422,524	-	-	422,524
Machinery and Equipment	537,164	40,107	-	577,271
Infrastructure	8,857,930	-	-	8,857,930
Total depreciable assets	<u>10,429,645</u>	<u>40,107</u>	<u>-</u>	<u>10,469,752</u>
Accumulated Depreciation:				
Buildings	(239,233)	(5,381)	-	(244,614)
Other improvements	(93,514)	(10,168)	-	(103,682)
Vehicles	(313,177)	(49,336)	-	(362,513)
Machinery and Equipment	(305,491)	(26,250)	-	(331,741)
Infrastructure	(2,870,280)	(358,732)	-	(3,229,012)
Total accumulated depreciation	<u>(3,821,695)</u>	<u>(449,867)</u>	<u>-</u>	<u>(4,271,562)</u>
Depreciable assets, net	<u>6,607,950</u>	<u>(409,760)</u>	<u>-</u>	<u>6,198,190</u>
<b>Governmental activities capital assets, net</b>	<u>\$ 6,857,838</u>	<u>\$ (409,760)</u>	<u>\$ -</u>	<u>\$ 6,448,078</u>

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**4. CAPITAL ASSETS, Continued**

**A. Government-Wide Financial Statements, Continued**

Governmental activities depreciation expenses for capital assets for the year ended June 30, 2006 were as follows:

General Government	\$	29,036
Public Works		375,056
Public Safety		45,775
<b>Total depreciation expense</b>	<b>\$</b>	<b>449,867</b>

**5. LONG-TERM DEBT**

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2006:

Description	Beginning Balance July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006	Amounts Due Within One Year	Due in More Than One Year
<i>Governmental Activities:</i>						
2000 General Obligation Bonds	\$ 2,035,000	\$ -	\$ (15,000)	\$ 2,020,000	\$ 20,000	\$ 2,000,000
2002 General Obligation Bonds	2,970,000	-	(25,000)	2,945,000	30,000	2,915,000
<b>Total governmental activities -gross</b>	<b>5,005,000</b>	<b>-</b>	<b>(40,000)</b>	<b>4,965,000</b>	<b>50,000</b>	<b>4,915,000</b>
<b>Unamortized discount on issuance</b>	<b>(190,287)</b>	<b>-</b>	<b>9,011</b>	<b>(181,276)</b>	<b>(9,011)</b>	<b>(172,265)</b>
<b>Total governmental activities - net</b>	<b>\$ 4,814,713</b>	<b>\$ -</b>	<b>\$ (30,989)</b>	<b>\$ 4,783,724</b>	<b>\$ 40,989</b>	<b>\$ 4,742,735</b>

2000 General Obligation Bonds

2000 General Obligation Bonds in the principal amount of \$2,065,000 were issued on May 1, 2000 by the Town. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. Bonds maturing after August 1, 2007 are subject to call on any interest payment date at par, plus a premium of 1% to 2% of the principal amount. Bonds maturing on August 1, 2020 are subject to early redemption without premium on or after August 1, 2018 from the mandatory sinking fund redemptions. Term bonds maturing August 1, 2025 are also subject to mandatory early redemptions from the sinking fund payments commencing August 1, 2021. The bonds are general obligations of the Town and are secured by the Town's *ad valorem* property tax revenues which are collected by the County of Marin. The annual debt service requirements to amortize the 2000 General Obligation Bonds outstanding at June 30, 2006, were as follows:

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**5. LONG-TERM DEBT, Continued**

2000 General Obligation Bonds, Continued

Year Ending June 30,	Principal	Interest	Total
2007	\$ 20,000	\$ 118,103	\$ 138,103
2008	25,000	116,921	141,921
2009	30,000	115,477	145,477
2010	35,000	113,771	148,771
2011	45,000	111,671	156,671
2012-2016	330,000	513,093	843,093
2017-2021	585,000	383,943	968,943
2022-2026	950,000	155,855	1,105,855
	<u>2,020,000</u>	<u>1,628,834</u>	<u>3,648,834</u>
Unamortized discount	(75,554)	-	(75,554)
	<u>\$ 1,944,446</u>	<u>\$ 1,628,834</u>	<u>\$ 3,573,280</u>

2002 General Obligation

2002 General Obligation Bonds in the principal amount of \$3,000,000 were issued on June 1, 2002 by the Town. Principal payments are payable on August 1 of each year. Interest payments are payable semi-annually on February 1 and August 1. Bonds maturing after August 1, 2009 are subject to call on any interest payment date at par, plus a premium of 1% to 2% of the principal amount. Bonds maturing on August 1, 2022 are subject to early redemption with out premium on or after August 1, 2021 from the mandatory sinking fund redemptions. Term bonds maturing August 1, 2027 are also subject to mandatory early redemptions from the sinking fund payments commencing August 1, 2024. The bonds are general obligations of the Town and are secured by the Town's *ad valorem* property tax revenues which are collected by the County of Marin. The annual debt service requirements to amortize the 2002 General Obligation Bonds outstanding at June 30, 2006, were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 30,000	\$ 144,015	\$ 174,015
2008	35,000	142,813	177,813
2009	40,000	141,365	181,365
2010	50,000	139,565	189,565
2011	55,000	137,465	192,465
2012-2016	405,000	644,037	1,049,037
2017-2021	685,000	524,295	1,209,295
2022-2026	1,075,000	309,755	1,384,755
2022-2026	570,000	31,900	601,900
	<u>2,945,000</u>	<u>2,215,210</u>	<u>5,160,210</u>
Unamortized discount	105,722	-	105,722
	<u>\$ 3,050,722</u>	<u>\$ 2,215,210</u>	<u>\$ 5,265,932</u>

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**5. LONG-TERM DEBT, Continued**

Compensated Absence

Compensated absences include vacation and sick leave. It is the policy of the Town to pay 100% of the accumulated vacation leave when an employee retires or terminates. The Town recognizes the liability for its compensated absences in the governmental activities. The following is a summary of compensated absences transactions during the fiscal year ended June 30, 2006:

	Beginning Balance July 1, 2005	Additions	Reductions	Ending Balance June 30, 2006
Compensated Absences	\$ 135,068	\$ 122,581	\$ (96,891)	\$ 160,758

**6. OTHER FUND DISCLOSURES**

Expenditures over Appropriations

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

Major Fund:	
General Fund	\$ 640,301
Non-major Special Revenues Funds:	
Youth Recreation	15,352
<b>Total</b>	<b>\$ 655,653</b>

Deficit Fund Balances

At June 30, 2006, the funds below had the following deficit fund balance or net assets:

	<u>Deficit</u>
Non-major Special Revenue Funds:	
Open Space	\$ 12,712
Non-major Capital Project Funds:	
Grants	22,287
<b>Total</b>	<b>\$ 34,999</b>

The deficit in the Special Revenue fund is expected to be recovered from future contributions. The deficit in the Capital Project fund is expected to be recovered from grant reimbursements.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

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**7. EMPLOYEE RETIREMENT PLANS**

*Plan Description* - The Town 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 located at 400 P Street, Sacramento, CA 95814.

*Funding Policy* - Active plan members are required by state statute to contribute 8% for miscellaneous and 9% for safety employees of their annual covered salary. The Town makes the contributions required of Town employees on their behalf and for their account, which amounted to \$170,311 for the year ended June 30, 2006. The Town also contributed \$286,450 toward the Ross Valley Fire Service's annual pension cost.

The Town, as employer, is required to contribute an actuarially determined payment that is reflected as a percentage of annual covered payroll for miscellaneous and safety employees. The Contribution rate for fiscal year 2006 was 12.302% for miscellaneous and 42.384% for safety employees.

*Annual Pension Cost* - For fiscal year 2006 the Town's annual pension costs of \$422,760 for PERS was equal to the Town's required contribution. The required contribution was determined as a part of the June 30, 2004, actuarial valuation using the entry age method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected salary increases that range from 3.25% to 14.45% for miscellaneous and 3.25% to 14.45% for safety employees depending on age, service, and type of employment, and (c) 3.25% per year cost-of-living adjustments for retirees. Both (a) and (b) included an inflation component of 3.0%. 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. The average remaining amortization period at June 30, 2004, was 16 years for miscellaneous and 17 years for safety employees for prior and current service unfunded liabilities.

**THREE YEAR TREND INFORMATION FOR PERS**

Fiscal Year	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 228,700	100%	\$ -
6/30/2005	409,051	100%	-
6/30/2006	422,760	100%	-

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2006**

**8. RISK MANAGEMENT**

**A. Risk Pool**

The Town is a participant in the Bay Cities Joint Powers Insurance Authority (BCJPIA), which covers general liability claims in an amount up to \$1,000,000. The Town has a deductible or uninsured liability of up to \$50,000 per claim. Once the Town's deductible is met, BCJPIA Plan becomes responsible for payment of all claims up to the limit. Other coverage includes excess insurance for claims over \$1,000,000. During the fiscal year ended June 30, 2006, the Town contributed \$157,916 for current year coverage and received a refund of \$0 of prior year excess contributions.

The Town also participates in the BCJPIA, for worker's compensation insurance. BCJPIA participates in the Local Agency Worker's Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool which in turn purchases coverage above \$2,000,000. The Town has a deductible or uninsured liability of up to \$150,000 per claim. BCJPIA pool covers claims from \$150,000 to \$500,000. Claims from \$500,000 to \$2,000,000 are covered by LAWCX. Once the Town's deductible is met, then BCJPIA Plan becomes responsible for payment of all claims up to the limit. Other coverage includes excess insurance for claims over \$2,000,000 up to \$100,000,000. During the fiscal year ended June 30, 2006, the Town contributed \$72,348 for current year coverage and received a refund of \$0 of prior year excess contributions.

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

**B. Liability for Uninsured Claims**

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

Fiscal Year	Beginning of Year Liability	Current Year Claims and Changes in Estimates	Claim Payments for Current and Prior Years	End of Year Liability
2003-2004	\$ 402,272	\$ 550,598	\$ (318,043)	\$ 634,827
2004-2005	409,527	550,598	(318,043)	642,082
2005-2006	642,082	34,172	(220,000)	456,254

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**9. JOINT VENTURES**

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

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

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

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

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

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

The 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 the County of Marin. The Agreement provides for the regulation of rates for certain cable television services and equipment pursuant to the Cable Television Consumer Protection and Competition Act of 1992. The financial responsibility of each member is based on the number of cable television subscribers. Audited financial statements may be obtained by mailing a request to the Marin Telecommunications Agency at Marin County Auditor-Controller, County of Marin Room 225, San Rafael, CA 94903.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**9. JOINT VENTURES, Continued**

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

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

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

The Town is a member of the MERA, along with the County of Marin and twenty-four local government agencies. The MERA 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 MERA, in 1999, issued approximately \$27 million in revenue bonds. Audited financial statements may be obtained by a request to the Marin General Services Authority at Marin County Auditor-Controller, County of Marin Room 225, San Rafael, CA 94903.

**10. COMMITMENTS AND CONTINGENCIES**

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

***A. Utility Users' Tax***

The Town imposes a utility users' tax on citizens of the Town. The tax rate was previously set a 6 percent, but voters failed to affirm that rate in an election. As a result, the Town directed public utilities to roll back the 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.

**Town of Fairfax**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2005**

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**11. RESTATEMENT OF PRIOR PERIOD BALANCES**

*A. Statements*

An accounting correction was made to the Town's compensated absences. It was reclassified from a current liability to a long term liability. This resulted in a prior period adjustment to remove it from the General Fund.

	Fund as Previously Reported	Accounting Correction <u>Compensated Absences</u>	Fund Balance as Restated
General Fund	\$ 1,690,023	\$ 135,068	\$ 1,825,091

**REQUIRED SUPPLEMENTARY INFORMATION**

**Town of Fairfax**  
**Required Supplementary Information**  
**For the year ended June 30, 2006**

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**1. BUDGETARY PRINCIPLES**

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

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

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

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

**Town of Fairfax**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2006**

**1. BUDGETARY PRINCIPLES, Continued**

*Budgetary Comparison Schedule, General Fund*

	Budget		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Property taxes	\$ 3,083,000	\$ 3,083,000	\$ 3,434,984	\$ 351,984
Special assessments	642,000	642,000	660,908	18,908
Sales taxes	457,000	457,000	474,950	17,950
Permits licenses and fees	412,600	412,600	498,204	85,604
Fines, forfeitures and penalties	92,000	92,000	75,751	(16,249)
From other agencies	-	-	212,989	212,989
Motor vehicle in-lieu fees	179,200	179,200	169,430	(9,770)
Franchise fees	256,500	256,500	246,029	(10,471)
Services charges	109,900	109,900	141,215	31,315
Use of money and property	26,500	26,500	111,637	85,137
Other Revenue	39,500	39,500	63,144	23,644
<b>Total revenues</b>	<b>5,298,200</b>	<b>5,298,200</b>	<b>6,089,241</b>	<b>791,041</b>
<b>EXPENDITURES:</b>				
Current:				
General government	839,675	839,675	780,542	59,133
Public safety	3,629,079	3,629,079	3,455,867	173,212
Public works	670,350	670,350	1,439,799	(769,449)
Planning and building	495,900	495,900	483,857	12,043
Parks and recreation	191,725	191,725	306,965	(115,240)
<b>Total expenditures</b>	<b>5,826,729</b>	<b>5,826,729</b>	<b>6,467,030</b>	<b>(640,301)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(528,529)</b>	<b>(528,529)</b>	<b>(377,789)</b>	<b>150,740</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,718,056	1,718,056	1,880,274	162,218
Transfers out	1,718,056	1,718,056	(1,353,312)	(3,071,368)
<b>Total other financing sources (uses)</b>	<b>3,436,112</b>	<b>3,436,112</b>	<b>526,962</b>	<b>(2,909,150)</b>
<b>Net change in fund balances</b>	<b>\$ 2,907,583</b>	<b>\$ 2,907,583</b>	<b>149,173</b>	<b>\$ (2,758,410)</b>
<b>FUND BALANCES:</b>				
Beginning of year, as restated			1,825,091	
End of year			\$ 1,974,264	

**Town of Fairfax**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2006**

**1. BUDGETARY PRINCIPLES, Continued**

The most recent information available from the Public Employee Retirement System follows.

**PUBLIC EMPLOYEE RETIREMENT SYSTEM**  
**SCHEDULE OF FUNDING PROGRESS**

***SAFETY PLAN***

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2003	\$ 4,270,573,982	\$ 3,577,742,166	\$ 692,831,816	83.8%	\$ 476,089,674	145.53%
2004	5,383,921,942	4,424,586,846	959,335,096	82.2%	575,296,434	166.75%
2005	6,367,049,264	5,295,150,375	1,071,898,889	83.2%	664,147,796	161.39%

CalPERS Risk Pool Information (See note below)

***MISCELLANEOUS PLAN***

Valuation Date	Entry Age Accrued Liability	Value of Assets	Unfunded (Overfunded) Liability	Funded Ratio	Annual Covered Payroll	Unfunded (Overfunded) Liability as % of Payroll
2003	\$ 317,520,943	\$ 289,439,549	\$ 28,081,394	91.2%	\$ 74,981,463	37.45%
2004	434,267,445	379,807,592	54,459,853	87.5%	97,227,479	56.01%
2005	579,276,103	500,388,523	78,887,580	86.4%	129,379,492	60.97%

As of the actuarial valuation date of June 30, 2003, the Town's safety and miscellaneous plans became part of a CalPERS Risk Pool for employers with less than 100 active plan members. The schedule of funding progress for miscellaneous employees presented above is for the whole pool and not that of the Town individually.

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# SUPPLEMENTARY INFORMATION

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# NON-MAJOR GOVERNMENTAL FUNDS

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## *Non-Major Special Revenue Funds:*

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

*Special Police* - 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.

*Youth Recreation* - 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 Measure F dedicated funding, county donations and participant fees.

*Measure F* - accounts for a parcel tax approved by voters in 2005 for a period of five years to provide funding assistance to police and fire services, public works safety improvements, public works matching grants, and the youth program.

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

*Measure K* - accounts for proceeds from the issuance of Series 2000 general obligation bonds for the repair and maintenance of the Town's infrastructure.

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

## *Non-Major Debt Service Funds:*

Debt Service Funds are used to account for principal and interest payments of long term debt obligations. The Town's various debt service funds are:

*Measure K 2000 Series* - accounts for principal and interest payments of the Measure K General Obligation bonds (Series 2000).

*2002 Series* - accounts for principal and interest payments of the General Obligation bonds (Series 2002).

## *Non-Major Capital Projects Funds:*

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds. The following represents the Town's non-major capital projects fund:

*Fairfax Creek Restoration* - accounts for projects related specifically to creek restoration.

*Grants* - accounts for capital projects whereby partial funding is provided by state and federal grants.

*Town Capital Projects* - accounts for capital projects sourced by certain tax revenues and other funds allocated from the General Fund.

**Town of Fairfax**  
**Combining Balance Sheet**  
**Non-Major Governmental Funds**  
**June 30, 2006**

	Special Revenue					
	Special Police	Youth Recreation	Measure F	Gas Tax	Measure K	Open Space
<b>ASSETS</b>						
Cash and investments	\$ 9,725	\$ 34,994	\$ -	\$ -	\$ 36,674	\$ -
Accounts receivable	-	-	-	14,501	-	-
Taxes Receivable	-	-	3,452	-	-	-
Interest receivable	-	-	-	-	50	-
Due from other funds	-	-	186,150	-	-	-
<b>Total assets</b>	<b>\$ 9,725</b>	<b>\$ 34,994</b>	<b>\$ 189,602</b>	<b>\$ 14,501</b>	<b>\$ 36,724</b>	<b>\$ -</b>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>Liabilities:</b>						
Accounts payable	\$ -	\$ 4,453	\$ -	\$ -	\$ 25,795	\$ -
Due to other funds	-	-	74,042	14,501	-	12,712
<b>Total liabilities</b>	<b>-</b>	<b>4,453</b>	<b>74,042</b>	<b>14,501</b>	<b>25,795</b>	<b>12,712</b>
<b>Fund Balances:</b>						
Reserved for:						
Special projects	9,725	30,541	115,560	-	10,929	(12,712)
Debt service	-	-	-	-	-	-
Capital projects	-	-	-	-	-	-
<b>Total fund balances</b>	<b>9,725</b>	<b>30,541</b>	<b>115,560</b>	<b>-</b>	<b>10,929</b>	<b>(12,712)</b>
<b>Total liabilities and fund balances</b>	<b>\$ 9,725</b>	<b>\$ 34,994</b>	<b>\$ 189,602</b>	<b>\$ 14,501</b>	<b>\$ 36,724</b>	<b>\$ -</b>

Debt Service		Capital Projects			Total
Measure K 2000 Series	2002 Series	Fairfax Creek Restoration	Grants Fund	Town Capital Projects Fund	
\$ 155,991	\$ 226,822	\$ 96,755	\$ -	\$ 29,093	\$ 590,054
6,444	1,838	-	9,248	320	32,351
-	-	-	-	-	3,452
-	-	-	-	-	50
-	-	-	5,895	-	192,045
<u>\$ 162,435</u>	<u>\$ 228,660</u>	<u>\$ 96,755</u>	<u>\$ 15,143</u>	<u>\$ 29,413</u>	<u>\$ 817,952</u>

\$ -	\$ -	\$ -	\$ 6,559	\$ 29,093	\$ 65,900
-	-	1,400	30,871	-	133,526
-	-	1,400	37,430	29,093	199,426

-	-	-	-	-	154,043
162,435	228,660	-	-	-	391,095
-	-	95,355	(22,287)	320	73,388
<u>162,435</u>	<u>228,660</u>	<u>95,355</u>	<u>(22,287)</u>	<u>320</u>	<u>618,526</u>
<u>\$ 162,435</u>	<u>\$ 228,660</u>	<u>\$ 96,755</u>	<u>\$ 15,143</u>	<u>\$ 29,413</u>	<u>\$ 817,952</u>

# Town of Fairfax

## Combining Statement of Revenues, Expenditures and Changes in Fund Balances

### Non-Major Governmental Funds

For the year ended June 30, 2006

	Special Revenue					
	Special Police	Youth Recreation	Measure F	Gas Tax	Measure K	Open Space
<b>REVENUES:</b>						
Property taxes:						
Special assessments	\$ -	\$ -	\$ 466,500	\$ -	\$ -	\$ -
Permits, licenses, and fees	-	-	-	-	-	-
From other agencies	100,000	-	-	144,560	-	5,238
Service charges	-	23,653	-	-	-	-
Use of money and property	-	-	-	-	3,934	-
<b>Total revenues</b>	<b>100,000</b>	<b>23,653</b>	<b>466,500</b>	<b>144,560</b>	<b>3,934</b>	<b>5,238</b>
<b>EXPENDITURES:</b>						
Current:						
Public Works and Facilities	-	-	-	-	316,766	-
Parks and Recreation	-	36,352	-	-	-	-
Debt Service:						
Principle	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>36,352</b>	<b>-</b>	<b>-</b>	<b>316,766</b>	<b>-</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>100,000</b>	<b>(12,699)</b>	<b>466,500</b>	<b>144,560</b>	<b>(312,832)</b>	<b>5,238</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Transfers in	-	21,000	-	-	4,650	-
Transfers out	(107,000)	-	(350,940)	(144,560)	-	-
<b>Total other financing sources (uses)</b>	<b>(107,000)</b>	<b>21,000</b>	<b>(350,940)</b>	<b>(144,560)</b>	<b>4,650</b>	<b>-</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>(7,000)</b>	<b>8,301</b>	<b>115,560</b>	<b>-</b>	<b>(308,182)</b>	<b>5,238</b>
<b>FUND BALANCES:</b>						
Beginning of year	16,725	22,240	-	-	319,111	(17,950)
End of year	\$ 9,725	\$ 30,541	\$ 115,560	\$ -	\$ 10,929	\$ (12,712)

Debt Service		Capital Projects			Total
Measure K 2000 Series	2002 Series	Fairfax Creek Restoration	Grants Fund	Town Capital Projects Fund	
\$ 174,590	\$ 222,224	\$ -	\$ -	\$ -	\$ 863,314
-	-	-	-	320	320
-	-	-	90,981	-	340,779
-	-	-	-	-	23,653
-	-	-	-	-	3,934
<u>174,590</u>	<u>222,224</u>	<u>-</u>	<u>90,981</u>	<u>320</u>	<u>1,232,000</u>
-	-	11,444	125,268	36,488	489,966
-	-	-	-	-	36,352
15,000	25,000	-	-	-	40,000
119,021	145,034	-	-	-	264,055
<u>134,021</u>	<u>170,034</u>	<u>11,444</u>	<u>125,268</u>	<u>36,488</u>	<u>830,373</u>
40,569	52,190	(11,444)	(34,287)	(36,168)	401,627
-	-	1,400	12,000	36,488	75,538
-	-	-	-	-	(602,500)
-	-	1,400	12,000	36,488	(526,962)
40,569	52,190	(10,044)	(22,287)	320	(125,335)
121,866	176,470	105,399	-	-	743,861
<u>\$ 162,435</u>	<u>\$ 228,660</u>	<u>\$ 95,355</u>	<u>\$ (22,287)</u>	<u>\$ 320</u>	<u>\$ 618,526</u>

# Town of Fairfax

## Budgetary Comparison Schedule, Special Police Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
From other agencies	\$ 100,000	\$ 100,000	\$ 100,000	\$ -
Misc revenue	200	200	-	(200)
<b>Total revenues</b>	<b>100,200</b>	<b>100,200</b>	<b>100,000</b>	<b>(200)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	(107,000)	(107,000)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>(107,000)</b>	<b>(107,000)</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>				
	<b>\$ 100,200</b>	<b>\$ 100,200</b>	<b>(7,000)</b>	<b>\$ (107,200)</b>
<b>FUND BALANCES:</b>				
Beginning of year			16,725	
End of year			\$ 9,725	

**Town of Fairfax**

**Budgetary Comparison Schedule, Youth Recreation Special Revenue Fund**

**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
From other agencies	\$ -	\$ -	\$ -	\$ -
Service Charges	-	-	23,653	23,653
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>23,653</b>	<b>23,653</b>
<b>EXPENDITURES:</b>				
Current:				
Parks and Recreation	21,000	21,000	36,352	(15,352)
<b>Total expenditures</b>	<b>21,000</b>	<b>21,000</b>	<b>36,352</b>	<b>(15,352)</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(21,000)</b>	<b>(21,000)</b>	<b>(12,699)</b>	<b>8,301</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	18,000	18,000	21,000	3,000
<b>Total other financing sources (uses)</b>	<b>18,000</b>	<b>18,000</b>	<b>21,000</b>	<b>3,000</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ (3,000)</b>	<b>\$ (3,000)</b>	<b>8,301</b>	<b>\$ 11,301</b>
<b>FUND BALANCES:</b>				
Beginning of year			22,240	
End of year			\$ 30,541	

**Town of Fairfax**  
**Budgetary Comparison Schedule, Measure F Special Revenue Fund**  
**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes:				
Special assessments	\$ 465,000	\$ 465,000	\$ 466,500	\$ 1,500
<b>Total revenues</b>	<u>465,000</u>	<u>465,000</u>	<u>466,500</u>	<u>1,500</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	(350,940)	(350,940)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(350,940)</u>	<u>(350,940)</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>				
	<u>\$ 465,000</u>	<u>\$ 465,000</u>	115,560	<u>\$ (349,440)</u>
<b>FUND BALANCES:</b>				
Beginning of year			-	
End of year			<u>\$ 115,560</u>	

**Town of Fairfax**

**Budgetary Comparison Schedule, Gas Tax Special Revenue Fund**

**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
From other agencies	\$ 146,000	\$ 146,000	\$ 144,560	\$ (1,440)
<b>Total revenues</b>	<u>146,000</u>	<u>146,000</u>	<u>144,560</u>	<u>(1,440)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out	-	-	(144,560)	(144,560)
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>(144,560)</u>	<u>(144,560)</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>				
	<u>\$ 146,000</u>	<u>\$ 146,000</u>	-	<u>\$ (146,000)</u>
<b>FUND BALANCES:</b>				
Beginning of year			-	
End of year			<u>\$ -</u>	

**Town of Fairfax**

**Budgetary Comparison Schedule, Measure K Special Revenue Fund**

**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Use of money and property	\$ 1,500	\$ 1,500	\$ 3,934	\$ 2,434
<b>Total revenues</b>	<u>1,500</u>	<u>1,500</u>	<u>3,934</u>	<u>2,434</u>
<b>EXPENDITURES:</b>				
Current:				
Public Works and Facilities	316,974	316,974	316,766	208
<b>Total expenditures</b>	<u>316,974</u>	<u>316,974</u>	<u>316,766</u>	<u>208</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(315,474)</u>	<u>(315,474)</u>	<u>(312,832)</u>	<u>2,642</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	-	-	4,650	4,650
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>4,650</u>	<u>4,650</u>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<u>\$ (315,474)</u>	<u>\$ (315,474)</u>	<u>(308,182)</u>	<u>\$ 7,292</u>
<b>FUND BALANCES:</b>				
Beginning of year			319,111	
End of year			<u>\$ 10,929</u>	

# Town of Fairfax

## Budgetary Comparison Schedule, Open Space Special Revenue Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
From other agencies	\$ 18,950	\$ 18,950	\$ 5,238	\$ (13,712)
<b>Total revenues</b>	<b>18,950</b>	<b>18,950</b>	<b>5,238</b>	<b>(13,712)</b>
<b>EXPENDITURES:</b>				
Current:				
Parks and Recreation	1,300	1,300	-	1,300
<b>Total expenditures</b>	<b>1,300</b>	<b>1,300</b>	<b>-</b>	<b>1,300</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>17,650</b>	<b>17,650</b>	<b>5,238</b>	<b>(12,412)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,000	1,000	-	(1,000)
<b>Total other financing sources (uses)</b>	<b>1,000</b>	<b>1,000</b>	<b>-</b>	<b>(1,000)</b>
<b>REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	<b>\$ 18,650</b>	<b>\$ 18,650</b>	<b>5,238</b>	<b>\$ (13,412)</b>
<b>FUND BALANCES:</b>				
Beginning of year			(17,950)	
End of year			\$ (12,712)	

# Town of Fairfax

## Budgetary Comparison Schedule, Measure K 2000 Series Debt Service Fund

For the year ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes:				
Special assessments	\$ 164,300	\$ 164,300	\$ 174,590	\$ 10,290
<b>Total revenues</b>	<u>164,300</u>	<u>164,300</u>	<u>174,590</u>	<u>10,290</u>
<b>EXPENDITURES:</b>				
Current:				
Debt Service:				
Principle	15,000	15,000	15,000	-
Interest and fiscal charges	119,021	119,021	119,021	-
<b>Total expenditures</b>	<u>134,021</u>	<u>134,021</u>	<u>134,021</u>	<u>-</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ 30,279</u>	<u>\$ 30,279</u>	40,569	<u>\$ 10,290</u>
<b>FUND BALANCES:</b>				
Beginning of year			<u>121,866</u>	
End of year			<u>\$ 162,435</u>	

**Town of Fairfax**  
**Budgetary Comparison Schedule, 2002 Series Debt Service Fund**  
**For the year ended June 30, 2006**

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
<b>REVENUES:</b>				
Property taxes:				
Special assessments	\$ 209,500	\$ 209,500	\$ 222,224	\$ 12,724
<b>Total revenues</b>	<u>209,500</u>	<u>209,500</u>	<u>222,224</u>	<u>12,724</u>
<b>EXPENDITURES:</b>				
Current:				
Debt Service:				
Principle	25,000	25,000	25,000	-
Interest and fiscal charges	145,033	145,033	145,034	(1)
<b>Total expenditures</b>	<u>170,033</u>	<u>170,033</u>	<u>170,034</u>	<u>(1)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>\$ 39,467</u>	<u>\$ 39,467</u>	52,190	<u>\$ 12,725</u>
<b>FUND BALANCES:</b>				
Beginning of year			<u>176,470</u>	
End of year			<u>\$ 228,660</u>	

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# AGENCY FUNDS

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Agency Funds are used to account for assets held by the City in a fiduciary capacity or as an agent for individuals, government entities and others.

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

**Town of Fairfax**  
**Agency Funds**  
**Statements of Changes in Assets and Liabilities**  
**For the year ended June 30, 2006**

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2006</u>
<b><u>PAVILLION RENOVATION</u></b>				
<b>ASSETS</b>				
Cash and investments	\$ 146,093	\$ 10,764	\$ (4,500)	\$ 152,357
<b>Total assets</b>	<b>\$ 146,093</b>	<b>\$ 10,764</b>	<b>\$ (4,500)</b>	<b>\$ 152,357</b>
<b>LIABILITIES</b>				
Special deposits	\$ 146,093	\$ 10,764	\$ (4,500)	\$ 152,357
<b>Total liabilities</b>	<b>\$ 146,093</b>	<b>\$ 10,764</b>	<b>\$ (4,500)</b>	<b>\$ 152,357</b>