

Town of Fairfax

Fairfax, California

***Basic Financial Statements and
Independent Auditor's Report***

***For the year ended June 30, 2016
Prepared by: Finance Department***

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Town of Fairfax

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Town of Fairfax

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INDEPENDENT AUDITOR'S REPORT

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

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Fairfax (Town), California, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2016, and the respective changes in financial position listed as part of the basic financial statements for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matters

Management adopted the provisions of Governmental Accounting Standards Board Statement No. 72 – *Fair Value Measurement and Application*, which became effective during the year ended June 30, 2016, and required a modification of the notes to the financial statements as discussed in Note 2 to the financial statements.

In addition, as discussed in Note 1N, the Town adjusted the beginning balance of net position of the governmental type activities.

The emphasis of these matters do not constitute a modification to our opinions.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements as a whole. The Supplemental Information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Supplemental Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplemental Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Maze & Associates

Pleasant Hill, California
August 17, 2017

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, 2016. 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 position 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 \$12,779,770, liabilities of \$13,687,046 and net position of \$(598,637) at June 30, 2016. This compares with assets of \$11,962,960, liabilities of \$13,276,660 and net position of \$(1,376,349) at June 30, 2015.
- The Government-Wide Statement of Activities and Changes in Net position appears as the second statement of the Basic Financial Statements and is summarized in this Management's Discussion and Analysis section. This statement shows an increase in net position of \$777,712 for the fiscal year ended June 30, 2016 as compared to a decrease of \$5,457,325 for the fiscal year ended June 30, 2015. Revenues for fiscal 2016 increased by \$1,208,514 Expenses for the same period increased by \$1,702,747.
- The Town's long-term debt (including current portion & unamortized premium) totaled \$5,556,213 as of June 30, 2016, which includes the outstanding balance on the Measure K bonds. Additionally, the Town has accrued \$182,052 of current claims payable.

FUND HIGHLIGHTS

At the close of fiscal year 2016, the Town's governmental funds reported a combined ending fund balance of \$4,299,834 as compared to \$3,385,017 at June 30, 2015. 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 2015-2016, the Town accomplished the following key project and tasks:

- Repaired the Pavilion Roof
- Repaired Meadow Way Bridge
- Began process for refinancing the CalPERS side fund and Pre-2013 unfunded UAL liability
- Created sidewalk repair incentive program
- Worked with MOST, San Anselmo and the County to purchase Sky ranch property for the County Open Space District
- Adopted the Junior Second Unit Ordinance
- Refunded the 2006 General Obligation bonds reducing bond service costs to taxpayers
- Reconvened the Disaster Council and updated Emergency Operations Plan
- Completed improvements on two pedestrian trails; provided materials and supplies for volunteers on one trail; increased Town commitment to refurbishment of Fairfax Trails.
- Implemented elements of Climate Action Plan including adoption of 4 additional PACE programs and acquiring Grant funds for Deep Green incentive program
- Reorganized Recreation & Community Services Department to consolidate programs & services
- Filled vacant maintenance position in Public Works.
- Adopted an updated Housing Element

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

The Statement of Activities and Changes in Net position presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position 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 20 individual governmental funds. In the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances, information is presented as Major Fund and Non-major Governmental Funds. The Major Fund includes the following funds of the General Fund:

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

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

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

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

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

- Grants Fund
- Town Fund
- Fairfax Creek Restoration Fund

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 2006 Fund
- Measure K Debt Service Series 2008 Fund
- Measure K Debt Service Series 2012 Fund
- Measure K Debt Service Series 2016 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, or Enterprise funds, which are often used for utility services such as water & sewer, and transportation services, such as ports & airports.

Notes to the Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position

Net position for the Town is summarized below and an analysis follows:

| | Governmental Activities | | Percentage Change |
|--------------------------------------|-------------------------|-----------------------|----------------------|
| | 2016 | 2015 | |
| Cash and investments | \$ 3,927,604 | \$ 3,428,003 | 14.6% |
| Capital assets, net | 8,108,406 | 8,093,534 | 0.2% |
| Other assets | 743,760 | 441,423 | 68.5% |
| Total assets | 12,779,770 | 11,962,960 | 6.8% |
| Deferred outflow of resources | 1,267,091 | 1,285,407 | |
| Current liabilities | 964,391 | 1,260,054 | -23.5% |
| Non-current liabilities | 12,722,655 | 12,016,606 | 5.9% |
| Total liabilities | 13,687,046 | 13,276,660 | 3.1% |
| Deferred inflow of resources | 958,452 | 1,348,056 | |
| Invested in capital assets, net | 2,552,193 | 2,154,970 | 18.4% |
| Restricted | 1,027,778 | 1,061,105 | -3.1% |
| Unrestricted | (4,178,608) | (4,592,424) | -9.0% |
| Net assets | \$ (598,637) | \$ (1,376,349) | -56.5% |

Net position invested in capital assets (e.g. land, buildings, equipment, and infrastructure) of \$2,552,193 at the end of fiscal year 2016 represents the cost of these assets less any outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Resources needed to repay the outstanding debt must be provided from other sources other than the related assets, because the capital assets themselves cannot be used to repay these debts.

Restricted net position of \$1,027,778 at the end of fiscal 2016 represent resources that are subject to external restrictions on how they may be used. The remaining unrestricted net position is available to finance day-to-day operations without constraints.

Changes in Net position

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

| | Governmental Activities | | Percentage Change |
|---------------------------------------|-------------------------|-----------------------|----------------------|
| | 2016 | 2015 | |
| Revenues: | | | |
| Program revenues: | | | |
| Charges for services | \$ 1,276,243 | \$ 1,213,075 | 5.2% |
| Operating grants & contributions | 938,458 | 512,469 | 83.1% |
| General revenues: | | | |
| Taxes | 7,933,929 | 7,249,016 | 9.4% |
| Intergovernmental | | | 0.0% |
| Use of Money & Property | 10,096 | 4,202 | 140.3% |
| Miscellaneous | 262,154 | 233,604 | 12.2% |
| Transfers | - | - | |
| Total revenues | 10,420,880 | 9,212,366 | 13.1% |
| Expenses: | | | |
| General government | 2,940,938 | 1,830,280 | 60.7% |
| Public safety | 5,028,027 | 4,581,731 | 9.7% |
| Public works | 1,034,448 | 944,887 | 9.5% |
| Planning & Building | 603,484 | 573,727 | 5.2% |
| Parks and recreation | 423,240 | 403,183 | 5.0% |
| Debt Service | 303,207 | 296,789 | 2.2% |
| Total expenses | 10,333,344 | 8,630,597 | 19.7% |
| Change in net assets | 87,536 | 581,769 | -85.0% |
| Net assets - beginning of year | (686,173) | (1,958,118) | -65.0% |
| Net assets - end of year | \$ (598,637) | \$ (1,376,349) | -56.5% |

Net position increased \$777,712 during the fiscal year ended June 30, 2016. Total revenues for fiscal year 2016 were \$10,420,880 as compared to \$9,212,366 for fiscal year 2015. The \$1,208,514 increase from the prior year is primarily due to increased revenues from (1) current secured and unsecured property taxes, (2) additional grant revenues from the Highway Bridge program; (3) increases in Measure A (TAM) and Measure J (special purpose tax) revenues; (4) increases in building & planning Permits, license and fee revenues from the improving economy.

Total expenses for the year ended June 30, 2016 were \$10,333,344 compared with \$8,630,597 for the same period in 2015. The \$1,702,747 increase mainly as a result of increased expenditures in public safety and public works, and payments of principal on long term debt from the refinance of to 2008 series of General Obligation Bonds.

ANALYSIS OF MAJOR GOVERNMENTAL FUNDS

General Fund

The general fund is the chief operating fund of the Town of Fairfax. At the end of the current fiscal year, the unassigned fund balance of the general fund was \$2,652,478.

General Fund revenue during the FY 2015-16 year totaled 7,834,243 which was more than the final budgeted amount by \$491,543 or 6.7%. This revenue increase primarily relates to the Town's projection of property & sales tax revenue, permits & licenses, and service charges was exceeded by the actual receipts.

General Fund expenditures for FY 2015-16 totaled \$7,941,831, and were lower than the final budgeted amount by \$269,606 or 3.3%. This reflects salary savings from unfilled positions and cost savings by departments during the year.

2008 Series Debt Service Fund

The 2008 Series Debt Service Fund provides debt service for the refunded 2002 series of Measure K General Obligation bonds which were issues to fund capital improvements to community facilities, streets, and storm drains within the town between 2000 and 2006. At the end of the current fiscal year, the unassigned fund balance of the fund was \$363,393.

2012 Series Debt Service Fund

The 2012 Series Debt Service Fund provides debt service for the refunded 2006 series of Measure K General Obligation bonds which were issues to fund capital improvements to community facilities, streets, and storm drains within the town between 2000 and 2006. At the end of the current fiscal year, the unassigned fund balance of the fund was \$366,026.

2016 Series Debt Service Fund

At the end of the current fiscal year, the unassigned fund balance of the fund was \$168,487.

ECONOMIC OUTLOOK AND NEXT YEAR'S BUDGET

The Town continues to look for ways to provide stable revenue sources and reduce expenses where possible. Property and sales tax revenues which constitute the majority of the Town's revenues are expected to increase over the next few years due to a rising housing market and an improving economic recovery in the Bay Area and Northern California. Aided by a favorable economic outlook, the Town will be seeking to extend and increasing the add-on District Sales Tax (Measure C) which will be expiring in 2017. The add-on sales tax currently provides 5.0% of the Town revenues. Increasing the rate will allow the Town to provide additional funding for sidewalk and street maintenance as well as needed downtown improvements. Money is needed for improving the pedestrian trail system and sustaining recreation and senior programs. Property and sales tax revenues which constitute the majority of the Town's revenues are expected to increase over the next few years due to a rising housing market and an improving economic recovery in the Bay Area and Northern California.

Town Staff is moving forward on refinancing the unfunded pension liability held by CalPERS. The current obligation of \$7.2 million carries an interest rate of 7.5 percent. By refinancing a portion at a lower rate, the Town can realize significant saving in interest expense which can be used for more beneficial purposes.

The budget for FY 2016-17 projects a 7.3% increase in operating revenues and a 2.3% increase in capital fund revenues. The overall increase of 5.8% is primarily due to increases in property tax (+6.0%) from the recession recovery of the past few years. Operating expenditures are expected to increase 6.4% while capital expenses are projected to be 13.8% less than the prior year's budget. Overall, expenses will increase by 1.6% over the prior year's budget. Increases are projected for salaries because of the additions of two part time positions, and in retirement and health costs. Other significant increases are projected in the fire contract with Ross Valley Fire (+4.0%) and health costs (+4.5%).

The Town does need to continue to keep it citizens aware of the necessity of renewing special purpose revenue sources such as Measure J, which provides matching funds for public works projects as well as funding for youth programs, and fire & police staffing.

REQUESTS FOR INFORMATION

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

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

BASIC FINANCIAL STATEMENTS

TOWN OF FAIRFAX
STATEMENT OF NET POSITION
JUNE 30, 2016

| | Governmental-Type Activities |
|--|---------------------------------|
| ASSETS | |
| Cash and investments (Note 2) | \$3,034,302 |
| Restricted cash and investments (Note 2) | 893,302 |
| Accounts receivable | 667,762 |
| Interest receivable | 4,641 |
| Taxes receivable | 71,357 |
| Capital assets: | |
| Land and construction in progress (Note 4) | 1,577,192 |
| Depreciable capital assets, net of accumulated depreciation (Note 4) | 6,531,214 |
| Total Assets | 12,779,770 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| Related to pension (Note 6) | 1,267,091 |
| LIABILITIES | |
| Accounts payable | 179,383 |
| Accrued payroll | 175,967 |
| Deposits | 16,180 |
| Interest payable | 85,500 |
| Compensated absences payable (Note 1G): | |
| Due within one year | 31,297 |
| Due in more than one year | 359,921 |
| Claims payable (Note 9): | |
| Due within one year | 182,052 |
| Long-term debt (Note 5): | |
| Due within one year | 294,012 |
| Due in more than one year | 5,262,201 |
| Net pension liability (Note 6): | |
| Due in more than one year | 6,975,220 |
| Net OPEB obligation (Note 8): | |
| Due in more than one year | 125,313 |
| Total Liabilities | 13,687,046 |
| DEFERRED INFLOWS OF RESOURCES | |
| Related to pension (Note 6) | 958,452 |
| NET POSITION (Note 1K) | |
| Net investment in capital assets | 2,552,193 |
| Restricted for: | |
| Special projects | 129,872 |
| Debt service | 897,906 |
| Total Restricted Net Position | 1,027,778 |
| Unrestricted | (4,178,608) |
| Total Net Position | (\$598,637) |

See accompanying notes to financial statements

TOWN OF FAIRFAX
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities: | | | | |
| General government | \$2,940,938 | \$511,284 | \$6,174 | (\$2,423,480) |
| Public safety | 5,028,027 | 200,118 | 128,937 | (4,698,972) |
| Public works | 1,034,448 | 1,237 | 134,767 | (234,653) |
| Planning and building | 603,484 | 519,296 | | (84,188) |
| Parks and recreation | 423,240 | 44,308 | | (374,143) |
| Interest and fiscal charges | 303,207 | | | (303,207) |
| Total Governmental Activities | <u>\$10,333,344</u> | <u>\$1,276,243</u> | <u>\$269,878</u> | <u>(\$668,580)</u> |
| General revenues: | | | | |
| Property taxes | | | | 5,400,925 |
| Utility user tax | | | | 350,741 |
| Sales taxes | | | | 1,184,277 |
| Other taxes | | | | 997,986 |
| Investment earnings | | | | 10,096 |
| Miscellaneous | | | | 262,154 |
| Total General Revenues | | | | <u>8,206,179</u> |
| Change in Net Position | | | | 87,536 |
| Net Position-Beginning, as adjusted (Note 1N) | | | | <u>(686,173)</u> |
| Net Position-Ending | | | | <u>(\$598,637)</u> |

See accompanying notes to financial statements

TOWN OF FAIRFAX
GOVERNMENTAL FUNDS
BALANCE SHEETS
JUNE 30, 2016

| | <u>General Fund</u> | <u>Grants Capital Projects Fund</u> | <u>2006 Series Debt Service</u> | <u>2008 Series Debt Service</u> |
|--|-------------------------|---|-------------------------------------|-------------------------------------|
| ASSETS | | | | |
| Cash and investments (Note 2) | \$2,474,540 | \$225,357 | | |
| Restricted cash and investments (Note 2) | | | | \$363,393 |
| Receivables (net of allowances): | | | | |
| Accounts | 417,754 | 224,728 | | |
| Taxes | 71,357 | | | |
| Interest | 4,641 | | | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Assets | <u>\$2,968,292</u> | <u>\$450,085</u> | <u> </u> | <u>\$363,393</u> |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts payable | \$127,912 | \$40,814 | | |
| Accrued payroll | 175,967 | | | |
| Deposits payable | 11,935 | 4,245 | | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Liabilities | <u>315,814</u> | <u>45,059</u> | <u> </u> | <u> </u> |
| Fund Balances (Note 1L): | | | | |
| Nonspendable | | | | |
| Restricted | | | | \$363,393 |
| Committed | | 405,026 | | |
| Unassigned | 2,652,478 | | | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Total Fund Balances | <u>2,652,478</u> | <u>405,026</u> | <u> </u> | <u>363,393</u> |
| Total Liabilities and Fund Balances | <u>\$2,968,292</u> | <u>\$450,085</u> | <u> </u> | <u>\$363,393</u> |

See accompanying notes to financial statements

| <u>2012 Series Debt Service</u> | <u>2016 Series Debt Service</u> | <u>Non-Major Governmental Funds</u> | <u>Total</u> |
|-------------------------------------|-------------------------------------|---|--------------------|
| | | \$334,405 | \$3,034,302 |
| \$361,422 | \$168,487 | | 893,302 |
| 4,604 | | 20,676 | 667,762 |
| | | | 71,357 |
| | | | 4,641 |
| <u>\$366,026</u> | <u>\$168,487</u> | <u>\$355,081</u> | <u>\$4,671,364</u> |
| | | \$10,657 | \$179,383 |
| | | | 175,967 |
| | | | 16,180 |
| | | 10,657 | 371,530 |
| \$366,026 | \$168,487 | 344,424 | 1,242,330 |
| | | | 405,026 |
| | | | 2,652,478 |
| <u>366,026</u> | <u>168,487</u> | <u>344,424</u> | <u>4,299,834</u> |
| <u>\$366,026</u> | <u>\$168,487</u> | <u>\$355,081</u> | <u>\$4,671,364</u> |

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TOWN OF FAIRFAX
 Reconciliation of the
 GOVERNMENTAL FUNDS - BALANCE SHEETS
 with the
 STATEMENT OF NET POSITION
 JUNE 30, 2016

Total fund balances reported on the governmental funds balance sheet \$4,299,834

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

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and
 therefore are not reported in the Governmental Funds. 8,108,406

LONG-TERM ASSETS AND LIABILITIES

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

| | |
|--|------------------|
| Long-term debt | (5,474,112) |
| Unamortized bond premium | (82,101) |
| Interest payable | (85,500) |
| Claims payable | (182,052) |
| Net OPEB obligation | (125,313) |
| Net pension liabilities and pension-related deferred outflows and inflows of resources | (6,666,581) |
| Compensated absences | <u>(391,218)</u> |

NET POSITION OF GOVERNMENTAL ACTIVITIES (\$598,637)

See accompanying notes to financial statements

TOWN OF FAIRFAX
GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2016

| | General Fund | Grants Capital Projects Fund | 2006 Series Debt Service | 2008 Series Debt Service |
|---|--------------------|------------------------------------|-----------------------------|-----------------------------|
| REVENUES | | | | |
| Property taxes | \$4,154,801 | | \$227,522 | \$159,468 |
| Special assessments | 404,611 | | | |
| Sales taxes | 1,145,061 | | | |
| Permits licenses and fees | 619,900 | | | |
| Fines, forfeitures and penalties | 133,241 | | | |
| From other agencies | 736,213 | \$759,862 | 1,981 | 1,387 |
| Motor vehicle in-lieu fees | 3,080 | | | |
| Franchise fees | 377,810 | | | |
| Services charges | 100,984 | | | |
| Use of money and property | 26,671 | | | |
| Other revenue | 131,871 | | | |
| Total Revenues | 7,834,243 | 759,862 | 229,503 | 160,855 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,403,458 | | | |
| Public safety | 4,920,216 | | | |
| Public works | 577,331 | | | |
| Planning and building | 597,595 | | | |
| Parks and recreation | 376,642 | | | |
| Capital outlay | 8,161 | 742,442 | | |
| Debt service: | | | | |
| Principal | 54,510 | | 1,330,000 | 105,000 |
| Interest and fiscal charges | 3,918 | | 167,355 | 76,078 |
| Total Expenditures | 7,941,831 | 742,442 | 1,497,355 | 181,078 |
| REVENUES OVER (UNDER) EXPENDITURES | (107,588) | 17,420 | (1,267,852) | (20,223) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from issuance of debt | | | | |
| Transfers in (Note 3) | 867,100 | 290,745 | 1,180,776 | |
| Transfers out (Note 3) | (51,600) | (58,893) | (110,263) | |
| Total Other Financing Sources (Uses) | 815,500 | 231,852 | 1,070,513 | |
| Net change in fund balance | 707,912 | 249,272 | (197,339) | (20,223) |
| FUND BALANCE (DEFICIT) | | | | |
| Beginning of the year | 1,944,566 | 155,754 | 197,339 | 383,616 |
| End of the year | <u>\$2,652,478</u> | <u>\$405,026</u> | <u></u> | <u>\$363,393</u> |

See accompanying notes to financial statements

| 2012 Series Debt Service | 2016 Series Debt Service | Non-major Governmental Funds | Total |
|-----------------------------|-----------------------------|------------------------------------|--------------------|
| \$164,840 | | | \$4,706,631 |
| | | | 404,611 |
| | | | 1,145,061 |
| | | | 619,900 |
| | | | 133,241 |
| 1,435 | | \$1,226,234 | 2,727,112 |
| | | | 3,080 |
| | | | 377,810 |
| | | 38,890 | 139,874 |
| | | | 26,671 |
| 5,018 | | | 136,889 |
| <u>171,293</u> | | <u>1,265,124</u> | <u>10,420,880</u> |
| | | | 1,403,458 |
| | | | 4,920,216 |
| | | | 577,331 |
| | | | 597,595 |
| | | 48,183 | 424,825 |
| | | 141,977 | 892,580 |
| 125,000 | | | 1,614,510 |
| 67,197 | | | 314,548 |
| <u>192,197</u> | | <u>190,160</u> | <u>10,745,063</u> |
| <u>(20,904)</u> | | <u>1,074,964</u> | <u>(324,183)</u> |
| | \$1,239,000 | | 1,239,000 |
| | 110,263 | 135,493 | 2,584,377 |
| | <u>(1,180,776)</u> | <u>(1,182,845)</u> | <u>(2,584,377)</u> |
| | 168,487 | (1,047,352) | 1,239,000 |
| (20,904) | 168,487 | 27,612 | 914,817 |
| <u>386,930</u> | | <u>316,812</u> | <u>3,385,017</u> |
| <u>\$366,026</u> | <u>\$168,487</u> | <u>\$344,424</u> | <u>\$4,299,834</u> |

TOWN OF FAIRFAX
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

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

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$914,817

CAPITAL ASSETS TRANSACTIONS

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

| | |
|---|-----------|
| The capitalized expenditures are therefore added back to fund balance | 578,849 |
| (Capitalized expenditures is the net of total capital outlay of \$892,580 and non-capitalized capital outlay expenditures of \$313,371) | |
| Depreciation expense is deducted from the fund balance | (563,977) |

LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

| | |
|--|-------------|
| Repayment of debt principal is added back to fund balance | 1,614,510 |
| Proceeds from issuance of debt | (1,239,000) |
| Amortized bond premium expense is added back to fund balance | 6,841 |

ACCRUAL OF NON-CURRENT ITEMS

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

| | |
|--------------------------------------|-------------|
| Deferred interest and fiscal charges | |
| Compensated absences | (67,067) |
| Net OPEB obligation | 42,529 |
| Claims payable | 11,600 |
| Interest payable | 4,500 |
| Collective net pension liability | (1,216,066) |

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$87,536

See accompanying notes to financial statements

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES

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

A. *Financial Reporting Entity*

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

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

Blended Component Unit – The Fairfax Financing Authority

The Fairfax Financing Authority is a separate government entity whose purpose is to assist with the financing or refinancing of certain public capital facilities within the Town. The Authority has the power to purchase bonds issued by any local agency at public or negotiated sale and may sell such bonds to public or private purchasers at public or negotiated sale. The Authority is controlled by the Town and has the same governing body as the Town, which also performs all accounting and administrative functions for the Authority. The financial activities of the Authority are included in the 2008 and 2012 Series Debt Service Funds.

B. *Basis of Accounting and Measurement Focus*

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

Government–Wide Financial Statements

The Town's government–wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of the governmental activities for the Town, the primary government, accompanied by a total column.

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

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis Accounting and Measurement Focus (Continued)

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

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

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

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

Governmental Fund Financial Statements

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

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus. Accordingly, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources, 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.

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.

C. Recognition of Interest Liability

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

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

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Use of Restricted and Unrestricted Net Position

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

E. Cash, Cash Equivalents and Investments

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

F. Capital Assets

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

| | |
|-----------------------------------|-------------|
| Buildings | 25-50 years |
| Improvements other than buildings | 20 years |
| Vehicles | 6-15 years |
| Machinery and equipment | 5-20 years |
| Infrastructure | 25-65 years |

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

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

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. *Compensated Absences*

Government-Wide Financial Statements

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

Fund Financial Statements

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

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, which is liquidated by the General Fund. The following is a summary of compensated absences transactions during the fiscal year ended June 30, 2016:

| | <u>Governmental Activities</u> |
|-------------------|------------------------------------|
| Beginning Balance | \$324,151 |
| Additions | 68,772 |
| Payments | <u>(1,705)</u> |
| Ending Balance | <u>\$391,218</u> |
| Current Portion | <u>\$31,297</u> |

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

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:

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

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

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

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

I. Post Employment Benefits Other than Pensions

The Town provides post-retirement health care benefits to management and miscellaneous employees starting at 10 years of service and increasing the contribution with years of service as required by current association and management agreements for employees hired after June 30, 2013, the post-retirement health benefits are either eliminated or reduced by 50%. The Town makes premium payments on a “pay-as-you-go” basis.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Use of Estimates

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

K. Net Position

Government-Wide Financial Statements

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

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

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

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

L. Fund Balances

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

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

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

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Fund Balances (Continued)

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

Committed fund balances have constraints imposed by formal action of the Town Council which may be altered only by formal action of the Town Council. The Town Council can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Nonspendable amounts subject to council commitments are included along with spendable resources.

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

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

Detailed classifications of the Town's Fund Balances, as of June 30, 2016, are below:

| Fund Balance Classifications | General Fund | Grants | | | | 2016 Debt Service | Non-Major Governmental Funds | Total |
|---------------------------------------|--------------------|-----------------------|-------------------|-------------------|-------------------|-------------------|------------------------------|--------------------|
| | | Capital Projects Fund | 2006 Debt Service | 2008 Debt Service | 2012 Debt Service | | | |
| Restricted for: | | | | | | | | |
| Special projects | | | | | | | \$344,424 | \$344,424 |
| Debt service | | | (\$776) | \$363,393 | \$366,026 | \$169,263 | | 897,906 |
| Total Restricted Fund Balances | | | (776) | 363,393 | 366,026 | 169,263 | 344,424 | 1,242,330 |
| Committed for: | | | | | | | | |
| Special projects | | \$405,026 | | | | | | 405,026 |
| Total Committed Fund Balances | | 405,026 | | | | | | 405,026 |
| Unassigned: | | | | | | | | |
| General Fund | \$2,652,478 | | | | | | | 2,652,478 |
| Total Unassigned Fund Balances | 2,652,478 | | | | | | | 2,652,478 |
| Total Fund Balances | \$2,652,478 | \$405,026 | (\$776) | \$363,393 | \$366,026 | \$169,263 | \$344,424 | \$4,299,834 |

General Fund Reserve Policy

The Town's General Fund Reserve Policy requires the Town to strive to maintain a goal of 20% of projected General Fund expenditures for each fiscal year and an additional 5% for emergency situations (excluding debt service, fund transfers, and encumbered funds).

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs – other than quoted prices included within level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for an asset or liability.

If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

N. Prior Period Adjustment

The Town implemented GASB Statements No. 68 and 71 in fiscal year 2015. As part of the implementation, contributions made to the Town's pension plan during the fiscal year were deferred and reported as part of the deferred outflows balance at June 30, 2015.

During fiscal year 2016, the Town discovered that, in the previous year, it mistakenly included the contributions made to the Town's pension plan during fiscal year 2014 in its deferred outflow calculation. As a result, the balance of deferred outflows was overstated by \$690,176 at June 30, 2015. To correct this error, the beginning balance of the governmental activities net position was reduced by the same amount in fiscal year 2016.

O. New GASB Pronouncement

Management adopted the provisions of the following Governmental Accounting Standards Board (GASB) Statements, which became effective during the year ended June 30, 2016.

GASB Statement No. 72 - The intention of this Statement is to enhance the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. It also enhances fair value application guidance and related disclosures.

GASB Statement No. 76 - The objective of this Statement is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55. This Statement did not have a material impact on the financial statements for the fiscal year 2016.

GASB Statement No. 79 - This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement did not have a material impact on the financial statements for the fiscal year 2016.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

P. Deferred Outflows/Inflows of Resources

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

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

Q. New and Closed Funds

During fiscal year ended June 30, 2016, the Town created the Measure A Special Revenue Fund. The fund accounts for the revenues from a ½-cent and ¼-cent sales tax administered by the Transportation Authority of Marin (TAM). Additional funding was added in November 2010 with the passing of Measure B which added \$10 per vehicle to the annual Vehicle License Fee to fund transportation programs within the Town. The purpose of this fund is to care for parks, open spaces, recreation programs, and transportation programs.

The Town also closed the Measure K Special Revenue Fund, Pavilion Renovation Capital Projects Fund, and Measure K 2000 Series Debt Service Fund.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS

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

A. Summary of Cash and Investments

The following is a summary of cash and investments at June 30, 2016:

| | Governmental Activities |
|---------------------------------|----------------------------|
| Cash and investments | \$3,034,302 |
| Restricted cash and investments | 893,302 |
| Grand Total | <u>\$3,927,604</u> |

Cash and investments were categorized as follows at June 30, 2016:

| | Credit Quality Ratings | Fair Value | Days to Maturity |
|-------------------------------------|---------------------------|--------------------|---------------------|
| Town Treasury Deposits: | | | |
| Deposits | Not Rated | \$190,201 | N/A |
| Petty cash | Not Rated | 300 | N/A |
| Total Town Treasury Deposits | | <u>190,501</u> | |
| Town Treasury Investments: | | | |
| Local Agency Investment Fund | Not Rated | 3,737,103 | N/A |
| Total Cash and Investments | | <u>\$3,927,604</u> | |

B. Cash Deposits

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

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS (Continued)

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

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

C. Investments

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

- State Local Agency Investment Fund (LAIF)
- Insured and/or collateralized certificates of deposit
- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States government and are considered to be the most secure instruments available
- U.S. government agency and instrumentality obligations that have a liquid market with a readily determinable market value
- Bankers' acceptances
- Commercial paper, rated in the highest tier by a nationally recognized rating agency
- Investment-grade obligations of state, local governments and public authorities
- Money market mutual funds regulated by the Securities and Exchange Commission and whose portfolios consist only of dollar-denominated securities

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

D. Investments in Local Agency Investment Funds

The Town is a participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Town reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are U.S. Treasuries, Federal Agency obligations, time deposits, negotiable certificates of deposits, commercial paper, corporate bonds, and security loans. At June 30, 2016, the average life on investment funds invested by LAIF was 167 days.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

2. CASH AND INVESTMENTS (Continued)

E. Fair Value Hierarchy

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The following is a summary of the fair value hierarchy of the fair value of investments of the Town as of June 30, 2016:

| Investment Type | Level 2 | Total |
|---|--------------------|--------------------|
| California Local Agency Investment Fund | \$3,737,103 | \$3,737,103 |
| Total Investments | <u>\$3,737,103</u> | 3,737,103 |
| Cash in banks and on hand | | 190,501 |
| Total Cash and investments | | <u>\$3,927,604</u> |

The California Local Agency Investment Fund (LAIF) classified in Level 2 is valued based on the fair value factor provided by the Treasurer of the State of California, which is calculated as fair value divided by the amortized cost of the investment pool. Fair value is defined as the quoted market value on the last trading day of the period. This price is obtained from various pricing sources by the custodian bank.

3. INTERFUND TRANSACTIONS

Interfund Transfers

Transfers during the fiscal year ended June 30, 2016, were comprised of the following:

| <u>Fund Receiving Transfers</u> | <u>Fund Making Transfers</u> | <u>Amount</u> |
|---------------------------------|------------------------------|--------------------|
| General Fund | Non-Major Governmental Funds | \$867,100 |
| Grants Capital Projects Fund | Non-Major Governmental Funds | 290,745 |
| 2006 Series Debt Service | 2016 Series Debt Service | 1,180,776 |
| 2016 Series Debt Service | 2006 Series Debt Service | 110,263 |
| Non-Major Governmental Funds | General Fund | 51,600 |
| | Grants Capital Projects Fund | 58,893 |
| | Non-Major Governmental Funds | 25,000 |
| Total Interfund Transfers | | <u>\$2,584,377</u> |

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

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

4. CAPITAL ASSETS

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

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

A. Government-Wide Financial Statements

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

| | Balance June 30, 2015 | Additions | Balance June 30, 2016 |
|--|---------------------------|------------------------|---------------------------|
| Capital assets not being depreciated: | | | |
| Land | \$255,988 | | \$255,988 |
| Construction in progress | 742,355 | \$578,849 | 1,321,204 |
| | <u>998,343</u> | <u>578,849</u> | <u>1,577,192</u> |
| Total capital assets not being depreciated | | | |
| Capital assets being depreciated: | | | |
| Buildings | 423,974 | | 423,974 |
| Other improvements | 2,308,464 | | 2,308,464 |
| Vehicles | 669,246 | | 669,246 |
| Machinery and equipment | 757,738 | | 757,738 |
| Infrastructure | 11,461,692 | | 11,461,692 |
| | <u>15,621,114</u> | | <u>15,621,114</u> |
| Total capital assets being depreciated | | | |
| Less accumulated depreciation for: | | | |
| Buildings | (288,800) | (3,248) | (292,048) |
| Other improvements | (688,497) | (111,855) | (800,352) |
| Vehicles | (474,421) | (52,308) | (526,729) |
| Machinery and equipment | (633,319) | (16,876) | (650,195) |
| Infrastructure | (6,440,886) | (379,690) | (6,820,576) |
| | <u>(8,525,923)</u> | <u>(563,977)</u> | <u>(9,089,900)</u> |
| Total accumulated depreciation | | | |
| Net capital assets being depreciated | <u>7,095,191</u> | <u>(563,977)</u> | <u>6,531,214</u> |
| | | | |
| Governmental activity capital assets, net | <u><u>\$8,093,534</u></u> | <u><u>\$14,872</u></u> | <u><u>\$8,108,406</u></u> |

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

4. CAPITAL ASSETS (Continued)

Depreciation expense for governmental activities depreciation expenses on capital assets for the year ended June 30, 2016, were as follows:

| | Depreciation Expense |
|--------------------------------------|-------------------------|
| General Government | \$58,407 |
| Public Safety | 52,282 |
| Public Works | 453,288 |
| Total Governmental Activities | \$563,977 |

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions during the fiscal year ended June 30, 2016:

| Governmental Activity Debt: | Original Issue Amount | Balance June 30, 2015 | Additions | Retirements | Balance June 30, 2016 | Amount Due within One Year | Due in More than One Year |
|--|-----------------------------|--------------------------|--------------------|----------------------|--------------------------|----------------------------------|---------------------------------|
| <i>Authority Debt:</i> | | | | | | | |
| 2008 General Obligation Revenue Bonds | | | | | | | |
| 1.50-4.70% due 8/1/2025 | \$2,231,000 | \$1,759,000 | | (\$105,000) | \$1,654,000 | \$114,000 | \$1,540,000 |
| Revenue Bonds, Series 2012 | | | | | | | |
| 2.00-3.00%, due 8/21/2027 | 2,880,000 | 2,561,500 | | (125,000) | 2,436,500 | 135,000 | 2,301,500 |
| <i>Town Debt:</i> | | | | | | | |
| General Obligation Bonds, Series 2006 | | | | | | | |
| 4.00-6.00%, due 8/1/2027 | 1,765,000 | 1,330,000 | | (1,330,000) | | | |
| General Obligation Refunding Bonds | | | | | | | |
| Series 2016 2.10%, due 8/1/2027 | 1,239,000 | | \$1,239,000 | | 1,239,000 | | 1,239,000 |
| <i>Capital Leases:</i> | | | | | | | |
| Solar Panel Lease | 249,000 | 132,800 | | (16,600) | 116,200 | 16,600 | 99,600 |
| Dodge Chargers Lease | 43,241 | 11,093 | | (11,093) | | | |
| 2014 Ford Trucks | 110,643 | 55,229 | | (26,817) | 28,412 | 28,412 | |
| Total Government Activity Debt - Gross | | 5,849,622 | 1,239,000 | (1,614,510) | 5,474,112 | 294,012 | 5,180,100 |
| Unamortized Premium | | 88,942 | | (6,841) | 82,101 | | 82,101 |
| Total Government Activity Debt - Net | | <u>\$5,938,564</u> | <u>\$1,239,000</u> | <u>(\$1,621,351)</u> | <u>\$5,556,213</u> | <u>\$294,012</u> | <u>\$5,262,201</u> |

2008 General Obligation Revenue Bonds

2008 General Obligation Revenue Bonds in the principal amount of \$2,231,000 were issued on August 21, 2008, by the Fairfax Financing Authority to provide funds to acquire the 2008 General Obligation Refunding Bonds (2008 Town Bonds) concurrently issued by the Town. Proceeds from these 2008 Town Bonds were used to refund the 2000 General Obligations Bonds as well as to fund certain capital projects within the Town. The 2008 Town Bonds are general obligations of the Town repayable from ad valorem property taxes levied by the County. Annual principal and interest payments on the 2008 Town Bonds are expected to require less than 10 percent of property tax revenues. 2008 Town Bonds debt service remittances by the Town are pledged for and used by the Authority to make debt service payments on the 2008 General Obligation Revenue Bonds to third party bond holders.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

5. LONG-TERM DEBT (Continued)

The substance of these two bond issues is that the Town and Authority are obligated to repay debt service from property tax collections. Under generally accepted accounting principles, the activities of the Town and Authority have been consolidated together (termed “blended”) and transactions and balances of the 2008 Town Bonds have been eliminated for financial reporting purposes.

2008 Revenue Bond principal payments are payable on August 1 of each year and interest payments are payable semi-annually on February 1 and August 1. 2008 Revenue Bonds maturing on or after August 1, 2017, are subject to call on any interest payment date at par, plus a premium of 1% to 2% of the principal amount. 2008 Revenue Bonds maturing on August 1, 2026, are subject to early redemption without premium on or after August 1, 2025, from the mandatory sinking fund redemptions. Term 2008 Revenue Bonds maturing August 1, 2031, are also subject to mandatory early redemptions from the sinking fund payments commencing August 1, 2028.

Revenue Bonds, Series 2012

Revenue Bonds, Series 2012 in the principal amount of \$2,880,000 were issued on March 1, 2012, by the Fairfax Financing Authority to provide funds to acquire the 2012 General Obligation Refunding Bonds (2012 Town Bonds) concurrently issued by the Town. Proceeds from these 2012 Town Bonds were used to repay the 2002 General Obligations Bonds as well as to fund certain capital projects within the Town. The 2012 Town Bonds are general obligations of the Town repayable from ad valorem property taxes levied by the County and debt service remittances by the Town are pledged for and used by the Authority to make debt service payments on the Revenue Bonds, Series 2012 to third party bond holders.

The substance of these two bond issues is that the Town and Authority are obligated to repay debt service from property tax collections. Under generally accepted accounting principles, the activities of the Town and Authority have been consolidated together (termed “blended”) and transactions and balances of the 2012 Town Bonds have been eliminated for financial reporting purposes.

Revenue Bond principal payments are payable on August 1 of each year and interest payments are payable bi-annually on February 1 and August 1. Revenue Bonds maturing on or after August 1, 2021, are subject to call on any interest payment date at par, plus a premium of 1% to 2% of the principal amount. Revenue Bonds maturing on August 1, 2022, are subject to early redemption without premium on or after August 1, 2021, from the mandatory sinking fund redemptions.

2006 General Obligation Bonds

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

On May 25, 2016, the Town issued 2016 General Obligation Refunding Bonds to advance refund the 2006 Bonds.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

5. LONG-TERM DEBT (Continued)

2016 General Obligation Refunding Bonds

In 2016, the Town issued \$1,239,000 in General Obligation Refunding Bonds with an interest rate 2.10%. The proceeds were used to advance refund \$1,330,000 of the Town's outstanding 2006 General Obligation Bonds. The net proceeds, together with an additional \$110,263, were deposited in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the refunded bonds. As a result, the 2006 General Obligation Bonds are considered defeased and the liability for those bonds has been removed from the Town's Statement of Net Position.

The net carrying amount of the old debt exceeded the requisition price by \$16,000. This amount is being netted against the new debt and amortized over the remaining life of the refunding debt. The Town advance refunded the 2006 General Obligation Bonds to reduce its total debt service payments over 11 years by \$316,667 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$269,846.

At June 30, 2016, none of the defeased 2006 General Obligation Bonds remains outstanding.

Capital Leases

The Town had entered into several capital leases as of June 30, 2016. Under these lease agreements, ownerships of the assets are passed to the Town at the end of the leases. Since these leases are in essence financing arrangements, the costs of the acquiring the assets and the amounts of the leases have been included in the Town's financial statements.

Debt Service Requirements

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

| For The Year Ending June 30 | Principal | Interest | Total |
|--------------------------------|-------------|-----------|-------------|
| 2017 | \$294,012 | \$132,023 | \$426,035 |
| 2018 | 387,600 | 152,432 | 540,032 |
| 2019 | 408,600 | 135,928 | 544,528 |
| 2020 | 438,600 | 123,163 | 561,763 |
| 2021 | 463,600 | 109,103 | 572,703 |
| 2022 - 2026 | 2,698,200 | 311,818 | 3,010,018 |
| 2027 - 2031 | 783,500 | 21,046 | 804,546 |
| | 5,474,112 | 985,513 | 6,459,625 |
| Unamortized Premium | 82,101 | | 82,101 |
| | \$5,556,213 | \$985,513 | \$6,541,726 |

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. EMPLOYEE RETIREMENT PLAN

A. General Information about the Pension Plan

Plan Description – All qualified permanent, probationary and part-time employees are eligible to participate in the Town’s Safety (police and fire) and Miscellaneous (all other) Employee Pension Rate Plans. The Town’s Miscellaneous and Safety Rate Plans are part of the public agency cost-sharing multiple-employer defined benefit pension plan (PERF C), which is administered by the California Public Employees’ Retirement System (CalPERS). PERF C consists of a miscellaneous pool and a safety pool (also referred to as “risk pools”), which are comprised of individual employer miscellaneous and safety rate plans, respectively. Individual employers may sponsor more than one miscellaneous and safety rate plan. The employer participates in one cost-sharing multiple-employer defined benefit pension plan regardless of the number of rate plans the employer sponsors. The Town sponsors six rate plans (three miscellaneous and three safety). Benefit provisions under the Plan are established by State statute and Town resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

Benefits Provided – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees’ Retirement Law.

The Plan’s provisions and benefits in effect at June 30, 2016, are summarized as follows:

| | Miscellaneous | | |
|---|------------------------------|---------------------------------|--------------------------------|
| | Classic Tier I | Classic Tier II | PEPRA |
| | Prior to October 30, 2012 | On or after October 30, 2012 | On or after January 1, 2013 |
| Hire date | | | |
| Benefit formula | 2.5% @ 55 | 2.0% @ 55 | 2.0% @ 62 |
| Benefit vesting schedule | 5 years service | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 55 | 55 | 62 |
| Monthly benefits, as a % of eligible compensation | 2.0% - 2.5% | 1.426%-2.418% | 1.0% - 2.5% |
| Required employee contribution rates | 8% | 7% | 6.500% |
| Required employer contribution rates | 10.008% | 8.844% | 6.730% |
| | | | |
| | Safety | | |
| | Classic Tier I | Classic Tier II | PEPRA |
| | Prior to October 30, 2012 | On or after October 30, 2012 | On or after January 1, 2013 |
| Hire date | | | |
| Benefit formula | 3% @ 50 | 3% @ 55 | 2.7% @ 57 |
| Benefit vesting schedule | 5 years service | 5 years service | 5 years service |
| Benefit payments | monthly for life | monthly for life | monthly for life |
| Retirement age | 50 | 55 | 57 |
| Monthly benefits, as a % of eligible compensation | 3% | 2.4% - 3% | 2.0% - 2.7% |
| Required employee contribution rates | 9% | 9% | 12.250% |
| Required employer contribution rates | 19.263% | 17.295% | 11.923% |

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. EMPLOYEE RETIREMENT PLAN (Continued)

Beginning in fiscal year 2016, CalPERS collects employer contributions for the Plan as a percentage of payroll for the normal cost portion as noted in the rates above and as a dollar amount for contributions toward the unfunded liability and side fund. The dollar amounts are billed on a monthly basis. The Town's required contribution for the unfunded liability and side fund was \$534,996 in fiscal year 2016.

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Town is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2016, the contributions to the Plan were as follows:

| | <u>Miscellaneous</u> | <u>Safety</u> | <u>Total</u> |
|--------------------------|----------------------|---------------|--------------|
| Contributions - employer | \$286,615 | \$544,416 | \$831,031 |

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

As of June 30, 2016, the Town reported a net pension liability for its proportionate share of the net pension liability of the Plan as follows:

| | |
|-----------------------------|---|
| | <u>Proportionate Share of Net Pension Liability</u> |
| Miscellaneous | \$2,503,788 |
| Safety | 4,471,432 |
| Total Net Pension Liability | <u>\$6,975,220</u> |

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. EMPLOYEE RETIREMENT PLAN (Continued)

The Town's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014 rolled forward to June 30, 2015 using standard update procedures. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Town's proportionate share of the net pension liability for the Plan as of June 30, 2014 and 2015 was as follows:

| | <u>Miscellaneous</u> |
|------------------------------|----------------------|
| Proportion - June 30, 2014 | 0.07748% |
| Proportion - June 30, 2015 | 0.09126% |
| Change - Increase (Decrease) | 0.01379% |
| | <u>Safety</u> |
| Proportion - June 30, 2014 | 0.11099% |
| Proportion - June 30, 2015 | 0.10852% |
| Change - Increase (Decrease) | -0.00247% |
| | <u>Total</u> |
| Proportion - June 30, 2014 | 0.18847% |
| Proportion - June 30, 2015 | 0.19978% |
| Change - Increase (Decrease) | 0.01131% |

For the year ended June 30, 2016, the Town recognized pension expense of \$1,216,066. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$286,615 | |
| Differences between actual and expected experience | 13,433 | |
| Changes in assumptions | | (\$127,086) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 85,337 | (232,440) |
| Net differences between projected and actual earnings on plan investments | | (63,710) |
| Total | <u>\$385,385</u> | <u>(\$423,236)</u> |

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. EMPLOYEE RETIREMENT PLAN (Continued)

Safety:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Pension contributions subsequent to measurement date | \$544,416 | |
| Differences between actual and expected experience | | (\$50,427) |
| Changes in assumptions | | (231,931) |
| Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions | 337,290 | (135,315) |
| Net differences between projected and actual earnings on plan investments | | (117,543) |
| Total | <u>\$881,706</u> | <u>(\$535,216)</u> |
| Combined Total | <u>\$1,267,091</u> | <u>(\$958,452)</u> |

\$831,031 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| | <u>Miscellaneous:</u> | <u>Safety:</u> | <u>Total:</u> |
|-----------------------|------------------------------|------------------------|------------------------|
| Year Ended June 30 | Annual Amortization | Annual Amortization | Annual Amortization |
| 2017 | (\$140,423) | (\$121,303) | (\$261,726) |
| 2018 | (116,650) | (21,958) | (138,608) |
| 2019 | (148,830) | (198,961) | (347,791) |
| 2020 | 81,437 | 144,296 | 225,733 |
| 2021 | - | - | - |
| Thereafter | - | - | - |

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. EMPLOYEE RETIREMENT PLAN (Continued)

Actuarial Assumptions – For the measurement period ended June 30, 2015, the total pension liability was determined by rolling forward the June 30, 2014 total pension liability. The June 30, 2014 and June 30, 2015 total pension liabilities were based on the following actuarial methods and assumptions for all rate plans:

| | |
|----------------------------------|---|
| Valuation Date | June 30, 2014 |
| Measurement Date | June 30, 2015 |
| Actuarial Cost Method | Entry-Age Normal Cost Method |
| Actuarial Assumptions: | |
| Discount Rate | 7.65% |
| Inflation | 2.75% |
| Payroll Growth | 3.0% |
| Projected Salary Increase | 3.2% - 12.2% (1) |
| Investment Rate of Return | 7.5% (2) |
| Mortality | Derived using CalPers Membership Data for all Funds (3) |
| Post Retirement Benefit Increase | Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter |

- (1) Depending on age, service and type of employment
- (2) Net of pension plan investment expenses, includes inflation
- (3) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the CalPERS 2014 experience study report available on CalPERS website.

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of a January 2014 actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. Further details of the Experience Study can found on the CalPERS website under Forms and Publications.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. EMPLOYEE RETIREMENT PLAN (Continued)

Change of Assumptions – GASB 68, paragraph 68 states that the long long-term expected rate of return should be determined net of pension plan investment expense, but without reduction for pension plan administrative expense. The discount rate of 7.50% used for the June 30, 2014 measurement date was net of administrative expenses. The discount rate of 7.65% used for the June 30, 2015 measurement date is without reduction of pension plan administrative expense. All other assumptions for the June 30, 2014 measurement date were the same as those used for the June 30, 2015 measurement date.

Discount Rate – The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.65% will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

6. EMPLOYEE RETIREMENT PLAN (Continued)

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| Asset Class | New Strategic Allocation | Real Return Years 1 - 10(a) | Real Return Years 11+(b) |
|-------------------------------|--------------------------|-----------------------------|--------------------------|
| Global Equity | 51.0% | 5.25% | 5.71% |
| Global Fixed Income | 19.0% | 0.99% | 2.43% |
| Inflation Sensitive | 6.0% | 0.45% | 3.36% |
| Private Equity | 10.0% | 6.83% | 6.95% |
| Real Estate | 10.0% | 4.50% | 5.13% |
| Infrastructure and Forestland | 2.0% | 4.50% | 5.09% |
| Liquidity | 2.0% | -0.55% | -1.05% |
| Total | <u>100%</u> | | |

(a) An expected inflation of 2.5% used for this period.

(b) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Town’s proportionate share of the net pension liability for the Plan, calculated using the discount rate for the Plan, as well as what the Town’s proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

| | Miscellaneous | Safety | Total |
|-----------------------|---------------|-------------|--------------|
| 1% Decrease | 6.65% | 6.65% | 6.65% |
| Net Pension Liability | \$3,961,476 | \$6,775,894 | \$10,737,370 |
| Current Discount Rate | 7.65% | 7.65% | 7.65% |
| Net Pension Liability | \$2,503,788 | \$4,471,432 | \$6,975,220 |
| 1% Increase | 8.65% | 8.65% | 8.65% |
| Net Pension Liability | \$1,300,298 | \$2,581,815 | \$3,882,113 |

Pension Plan Fiduciary Net Position – Detailed information about each pension plan’s fiduciary net position is available in the separately issued CalPERS financial reports.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

7. DEFINED CONTRIBUTION RETIREMENT PLAN

The Town contributes to VantageTrust, which administers a defined contribution retirement plan. A deferred compensation retirement plan provides retirement benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's accounts are determined instead of specifying the amount of benefits the individual is to receive. The benefits a participant will receive depend on the amount contributed to the participant's account, and the returns earned on investments on those contributions. The Plan's trust administrator is The International City Management Association Retirement Corporation (ICMA-RC), 777 North Capitol Street, N.E., Suite 600, Washington, D.C., 20002-4240.

As established by the plan, all eligible part-time, seasonal, and temporary employees of the Town become participants in the plan effective July 1, 2014 or upon starting date as an employee.

As determined by the plan, 3.75% of gross earnings to the plan. The Town contributes an additional 3.75% of the employee's gross earnings. Contributions made by an employee and the employer vest immediately. No forfeitures were noted during the current period.

During the year, the Town and employees each contributed \$3,974 and \$8,221, respectively. The total covered payroll of employees participating in the plan for the year ended June 30, 2016, was \$105,975. The total payroll for the year was \$2,809,076.

8. OTHER PENSION EMPLOYMENT BENEFIT

Plan Description and Funding Policy

The Town provides full health insurance benefits to employees who retire with at least 25 years of service (20 years in Management). The Town will pay the one-party Kaiser Basic And Medicare-coordinated premiums for such retirees. For those with 10 or more years of service, there are partial benefits. For Public Safety Employees hired after 7/1/2013 they are only eligible for partial retiree benefits (25% - 10 years of service, 50% - 20 years of service) miscellaneous employees hired after 7/1/2013 are no longer eligible for retiree benefits. For retirees not eligible for the premium-based benefit, the Town will pay the CalPers minimum employer contribution towards premiums, which is \$122 per month from July to December 2015 and \$125 from January to June 2016. The cost of the benefits provided by the Plan is currently being paid along with the annual required contribution. The long-term strategy for funding the benefits provided under the Plan is currently being evaluated.

As of June 30, 2016, 6 participants were eligible to receive retirement health care benefits.

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

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

8. OTHER PENSION EMPLOYMENT BENEFIT (Continued)

Actuarial Assumptions

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

The annual required contribution (ARC) was determined as part of a July 1, 2013 actuarial valuation using the projected unit credit actuarial cost method. This is a projected benefit cost method, which takes into account those benefits that are expected to be earned in the future as well as those already accrued. The actuarial assumptions included (a) 7.5% investment return; (b) 3% projected annual salary increase, (c) 2.75% annual general inflation rate and (d) 5% health care cost trend rate increases, starting 2015.

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

Funding Progress and Funded Status

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

| | |
|--------------------------------------|-------------------------|
| Annual required contribution (ARC) | \$116,600 |
| Add: interest on net OPEB obligation | 19,483 |
| Less: adjustments on OPEB obligation | <u>(16,913)</u> |
| Annual OPEB cost | 119,170 |
| Contributions made | <u>(161,699)</u> |
| Decrease in net OPEB obligation | (42,529) |
| Net OPEB obligation at June 30, 2015 | <u>167,842</u> |
| Net OPEB obligation at June 30, 2016 | <u><u>\$125,313</u></u> |

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

8. OTHER PENSION EMPLOYMENT BENEFIT (Continued)

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

| Fiscal Year | Annual OPEB Cost | Actual Contribution | Percentage of Pension Cost Contributed | Net OPEB Obligation |
|-------------|---------------------|------------------------|--|------------------------|
| 6/30/14 | \$112,470 | \$137,557 | 122% | \$220,720 |
| 6/30/15 | 115,770 | 168,648 | 146% | 167,842 |
| 6/30/16 | 119,170 | 161,699 | 136% | 125,313 |

Funded Status and Funding Progress – As of July 1, 2013, the most recent actuarial valuation date, the plan was 20.57% funded. The Actuarial Accrued Liability (AAL) for benefits was \$1,051,800 and the Actuarial Value of Plan Asset was \$216,400 resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$835,400. The covered payroll (annual payroll of active employees covered by the plan) was \$2,197,100 and the ratio of UAAL to the covered payroll was 38.02 percent.

The schedule of funding progress presented immediately following the financial statements as required supplementary information, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

9. RISK MANAGEMENT

A. Risk Pool

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

The Town also participates in the BCJPIA for worker's compensation insurance. BCJPIA participates in the Local Agency Worker's Compensation Excess Insurance Joint Powers Authority's (LAWCX) risk pool which in turn purchases coverage above \$1,000,000. The Town has a deductible or uninsured liability of up to \$150,000 per claim. BCJPIA pool covers claims from \$150,000 to \$1,000,000. Claims from \$1,000,000 up to statutory are covered by LAWCX. Once the Town's deductible is met, then BCJPIA Plan becomes responsible for payment of all claims up to the limit. Settled claims have not exceeded insurance coverage in any of the past three fiscal years by any significant amount.

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.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

9. RISK MANAGEMENT (Continued)

B. Liability for Uninsured Claims

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

| | June 30 | |
|--|------------------|------------------|
| | <u>2016</u> | <u>2015</u> |
| Balance at beginning of year | \$193,652 | \$166,475 |
| Change in liability for prior fiscal year claims and claims incurred but not reported | 74,879 | 75,001 |
| Claims paid | <u>(86,479)</u> | <u>(47,824)</u> |
| Balance at end of year | <u>\$182,052</u> | <u>\$193,652</u> |
| Due in one year | <u>\$182,052</u> | <u>\$193,652</u> |

During the past three years there have been no significant reductions in any of the Town’s Insurance coverage and no settlement amounts have exceeded insurance coverage.

10. JOINTLY GOVERNED ORGANIZATIONS

The Town participates in several active jointly governed organizations 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 jointly governed organizations are not the Town’s responsibility, and the Town does not have an equity interest in the assets of each jointly governed organization 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.

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

10. JOINTLY GOVERNED ORGANIZATIONS

B. Ross Valley Paramedic Authority (Authority)

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

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

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

D. Marin General Services Authority (MGSA)

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

E. Marin Emergency Radio Authority (MERA)

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

F. Marin County Major Crimes Task Force

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

Town of Fairfax
Notes to Basic Financial Statements
For the year ended June 30, 2016

11. COMMITMENTS AND CONTINGENCIES

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

12. SUBSEQUENT EVENTS

A. *2017 Lease Refinancing Project*

On November 2, 2016, the Town Council adopted a resolution authorizing the issuance and sale of 2016 Certificates of Participation to refinance certain Town CalPERS Retirement obligations for the purpose of generating savings to the Town's General Fund. Subsequently, on December 7, 2016, the Town Council amended the resolution to modify the sale of the 2016 Certificates of Participation from a public offering to a private placement. On January 9, 2017, the Town entered into a lease refinancing agreement to refinance the Town's retirement obligations in the amount of \$3,860,000.

B. *Storm Damage*

In January and February 2017, there were many storms that caused a lot of landslides and road damage within the Town. The Town estimates that the damages from this storm could amount to \$300,000.

C. *CalPERS Discount Rate Change*

In December 2016, CalPERS' Board of Directors voted to lower the discount rate from 7.5% to 7.0% over the next three fiscal years, beginning in fiscal year 2018. The change in the discount rate will affect the contribution rates beginning in fiscal year 2019 and result in increases to the normal costs and unfunded actuarial liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

**Town of Fairfax
Required Supplementary Information
For the year ended June 30, 2016**

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY,
A Cost Sharing-Employer Defined Pension Plan
Last 10 Years***

| Measurement Date | <u>Miscellaneous</u> | |
|---|-----------------------|------------------|
| | <u>6/30/2014</u> | <u>6/30/2015</u> |
| Plan's Proportion of the Net Pension Liability (Asset) | 0.07748% | 0.09126% |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) | \$1,914,846 | \$2,503,788 |
| Plan's Covered-Employee Payroll (A) | \$1,247,851 | \$1,377,094 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll | 153.45% | 181.82% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 81.08% | 76.61% |
| Measurement Date | <u>Safety</u> | |
| | <u>6/30/2014</u> | <u>6/30/2015</u> |
| Plan's Proportion of the Net Pension Liability (Asset) | 0.11099% | 0.10852% |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) | \$4,163,196 | \$4,471,432 |
| Plan's Covered-Employee Payroll (A) | \$809,319 | \$1,023,376 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll | 514.41% | 436.93% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 72.14% | 73.40% |
| Measurement Date | <u>Combined Total</u> | |
| | <u>6/30/2014</u> | <u>6/30/2015</u> |
| Plan's Proportion of the Net Pension Liability (Asset) | 0.18847% | 0.19978% |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) | \$6,078,042 | \$6,975,220 |
| Plan's Covered-Employee Payroll (A) | \$2,057,170 | \$2,400,470 |
| Plan's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of its Covered-Employee Payroll | 295.46% | 290.58% |
| Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability | 75.75% | 74.65% |

Notes to Schedule:

(A) Covered-Employee Payroll represented above is based on pensionable earnings provided by the employer. However, GASB 68 defines covered-employee payroll as the total payroll of employees that are provided pensions through the pension plan. Accordingly, if pensionable earnings are different than total earnings for covered-employees, the employer should display in the disclosure footnotes the payroll based on total earnings for the covered group and recalculate the required payroll-related ratios.

* - Fiscal year 2015 was the 1st year of implementation.

Town of Fairfax
Required Supplementary Information
For the year ended June 30, 2016

SCHEDULE OF CONTRIBUTIONS
A Cost Sharing-Employer Defined Pension Plan
Last 10 Years*

| | <u>Miscellaneous</u> | |
|---|-----------------------|--------------------|
| | <u>2015</u> | <u>2016</u> |
| For the Year Ended June 30 | | |
| Actuarially determined contribution | \$206,873 | \$286,615 |
| Contributions in relation to the actuarially determined contributions | (206,873) | (286,615) |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> |
| Covered-employee payroll | <u>\$1,247,851</u> | <u>\$1,377,094</u> |
| Contributions as a percentage of covered-employee payroll | 16.58% | 20.81% |
| | | |
| | <u>Safety</u> | |
| | <u>2015</u> | <u>2016</u> |
| For the Year Ended June 30 | | |
| Actuarially determined contribution | \$379,846 | \$544,416 |
| Contributions in relation to the actuarially determined contributions | (379,846) | (544,416) |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> |
| Covered-employee payroll | <u>\$809,319</u> | <u>\$1,023,376</u> |
| Contributions as a percentage of covered-employee payroll | 46.93% | 53.20% |
| | | |
| | <u>Combined Total</u> | |
| | <u>2015</u> | <u>2016</u> |
| For the Year Ended June 30 | | |
| Actuarially determined contribution | \$586,719 | \$831,031 |
| Contributions in relation to the actuarially determined contributions | (586,719) | (831,031) |
| Contribution deficiency (excess) | <u>\$0</u> | <u>\$0</u> |
| Covered-employee payroll | <u>\$2,057,170</u> | <u>\$2,400,470</u> |
| Contributions as a percentage of covered-employee payroll | 28.52% | 34.62% |

* - Fiscal year 2015 was the 1st year of implementation.

Town of Fairfax
Required Supplementary Information
For the year ended June 30, 2016

Other Post-Employment Retirement Benefits
Schedule of Funding Progress

| Actuarial Valuation Date | Actuarial Value of Assets (A) | Projected Unit Credit Cost Actuarial Accrued Liability (B) | Unfunded (Overfunded) Actuarial Accrued Liability (A - B) | Funded Ratio (A/B) | Covered Payroll (C) | Unfunded (Overfunded) Actuarial Liability as Percentage of Covered Payroll [(A - B)/C] |
|--------------------------------|--|---|--|--------------------------|---------------------------|--|
| 6/30/10 | \$0 | \$958,500 | \$958,500 | 0.00% | \$2,626,577 | 36.49% |
| 7/1/11 | 252,200 | 1,276,500 | 1,024,300 | 19.76% | 2,481,924 | 41.27% |
| 7/1/13 | 216,400 | 1,051,800 | 835,400 | 20.57% | 2,197,100 | 38.02% |

TOWN OF FAIRFAX
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
|---|--------------------|-------------------|--------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Property taxes | \$3,470,100 | \$3,989,700 | \$4,154,801 | \$165,101 |
| Special assessments | 375,000 | 404,000 | 404,611 | 611 |
| Sales tax | 1,080,900 | 1,080,900 | 1,145,061 | 64,161 |
| Permits licenses and fees | 125,000 | 517,000 | 619,900 | 102,900 |
| Fines, forfeitures and penalties | 240,000 | 115,000 | 133,241 | 18,241 |
| From other agencies | 56,300 | 644,100 | 736,213 | 92,113 |
| Motor vehicle in-lieu fees | | 2,500 | 3,080 | 580 |
| Franchise fees | 348,000 | 348,000 | 377,810 | 29,810 |
| Services charges | 148,300 | 98,000 | 100,984 | 2,984 |
| Use of money and property | 34,200 | 34,200 | 26,671 | (7,529) |
| Other revenue | 30,700 | 109,300 | 131,871 | 22,571 |
| Total Revenues | <u>5,908,500</u> | <u>7,342,700</u> | <u>7,834,243</u> | <u>491,543</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,563,909 | 1,560,912 | 1,403,458 | 157,454 |
| Public safety | 4,934,642 | 4,934,642 | 4,920,216 | 14,426 |
| Public works and facilities | 588,051 | 588,051 | 577,331 | 10,720 |
| Planning and building | 630,547 | 630,548 | 597,595 | 32,953 |
| Parks and recreation | 409,860 | 409,859 | 376,642 | 33,217 |
| Capital outlay | | 26,000 | 8,161 | 17,839 |
| Debt service: | | | | |
| Principal | 58,428 | 58,428 | 54,510 | 3,918 |
| Interest and fiscal charges | | 3,000 | 3,918 | (918) |
| Total Expenditures | <u>8,185,437</u> | <u>8,211,440</u> | <u>7,941,831</u> | <u>269,609</u> |
| REVENUES OVER (UNDER) EXPENDITURES | <u>(2,276,937)</u> | <u>(868,740)</u> | <u>(107,588)</u> | <u>761,152</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 2,441,299 | 2,545,599 | 867,100 | (1,678,499) |
| Transfers (out) | (156,746) | (1,752,646) | (51,600) | 1,701,046 |
| Total other financing sources (uses) | <u>2,284,553</u> | <u>792,953</u> | <u>815,500</u> | <u>22,547</u> |
| Net change in fund balance | <u>\$7,616</u> | <u>(\$75,787)</u> | <u>707,912</u> | <u>\$783,699</u> |
| FUND BALANCE | | | | |
| Beginning of year | | | <u>1,944,566</u> | |
| End of year | | | <u>\$2,652,478</u> | |

Town of Fairfax
Required Supplementary Information
For the year ended June 30, 2016

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 July - September.
- The Town Manager is authorized to transfer budgeted amounts within an activity, within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Council.
- Formal budgeting is employed as a management control device during the year for the general, certain special revenue and debt service funds.
- Budgets for the general, special revenue and debt service funds are adopted on a basis consistent with generally accepted accounting principles (GAAP), except Special Police Special Revenue Fund.
- Budgets for capital projects funds are adopted on a project-life basis.

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

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

Expenditures over Appropriations

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

| | <u>Expenditures in Excess of Budget</u> |
|---------------------------------------|---|
| 2006 Series Debt Service Fund | \$1,350,142 |
| 2008 Series Debt Service Fund | 1,550 |
| 2012 Series Debt Service Fund | 3,855 |
| Youth Recreation Special Revenue Fund | 15,329 |
| Open Space Special Revenue Fund | 6,154 |

SUPPLEMENTARY INFORMATION

TOWN OF FAIRFAX
 BUDGETED MAJOR GOVERNMENTAL FUNDS
 COMBINING SCHEDULES OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | 2006 Series Debt Service | | | 2008 Series Debt Service | | |
|---|--------------------------|--------------------------|------------------------------------|--------------------------|-------------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| Property taxes | 183,683 | \$227,522 | \$43,839 | \$128,743 | \$159,468 | \$30,725 |
| From other agencies | 1,237 | 1,981 | 744 | 867 | 1,387 | 520 |
| Other revenue | | | | | | |
| Total Revenues | <u>184,920</u> | <u>229,503</u> | <u>44,583</u> | <u>129,610</u> | <u>160,855</u> | <u>31,245</u> |
| EXPENDITURES | | | | | | |
| Debt Service: | | | | | | |
| Principal | 75,000 | 1,330,000 | (1,255,000) | 86,900 | 105,000 | (18,100) |
| Interest and fiscal charges | 72,213 | 167,355 | (95,142) | 92,628 | 76,078 | 16,550 |
| Total Expenditures | <u>147,213</u> | <u>1,497,355</u> | <u>(1,350,142)</u> | <u>179,528</u> | <u>181,078</u> | <u>(1,550)</u> |
| REVENUES OVER (UNDER) EXPENDITURES | <u>37,707</u> | <u>(1,267,852)</u> | <u>(1,305,559)</u> | <u>(49,918)</u> | <u>(20,223)</u> | <u>29,695</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | | 1,180,776 | 1,180,776 | | | |
| Transfers out | | (110,263) | (110,263) | | | |
| Total Other Financing Sources (Uses) | | <u>1,070,513</u> | <u>1,070,513</u> | | | |
| NET CHANGE IN FUND BALANCES | <u>\$37,707.00</u> | <u>(197,339)</u> | <u>(\$235,046.00)</u> | <u>(\$49,918)</u> | <u>(20,223)</u> | <u>\$29,695</u> |
| FUND BALANCE (DEFICIT) | | | | | | |
| Beginning of the year | | <u>197,339</u> | | | <u>383,616</u> | |
| End of the year | | <u><u> </u></u> | | | <u><u>\$363,393</u></u> | |

2012 Series Debt Service

| <u>Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|-------------------|------------------|---|
| \$133,082 | \$164,840 | \$31,758 |
| 896 | 1,435 | 539 |
| | 5,018 | 5,018 |
| <u>133,978</u> | <u>171,293</u> | <u>37,315</u> |
| 117,400 | 125,000 | (7,600) |
| 70,942 | 67,197 | 3,745 |
| <u>188,342</u> | <u>192,197</u> | <u>(3,855)</u> |
| <u>(54,364)</u> | <u>(20,904)</u> | <u>33,460</u> |
| | | |
| | | |
| <u>(\$54,364)</u> | <u>(20,904)</u> | <u>\$33,460</u> |
| | <u>386,930</u> | |
| | <u>\$366,026</u> | |

TOWN OF FAIRFAX
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2016

SPECIAL REVENUE FUNDS

| | Measure K | Special Police | Fairfax Festival | Measure J | Gas Tax |
|--|-----------|-------------------|---------------------|-----------------|-----------------|
| ASSETS | | | | | |
| Cash and investments | | \$20,020 | \$722 | \$63,160 | \$10,063 |
| Accounts receivable | | 10,000 | 4,822 | 5,400 | |
| Total Assets | | \$30,020 | \$5,544 | \$68,560 | \$10,063 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Accounts payable | | | \$5,544 | | |
| Total Liabilities | | | 5,544 | | |
| Fund balances: | | | | | |
| Restricted | | \$30,020 | | \$68,560 | \$10,063 |
| Total Fund Balances (Deficits) | | 30,020 | | 68,560 | 10,063 |
| Total Liabilities and Fund Balances | | \$30,020 | \$5,544 | \$68,560 | \$10,063 |

| SPECIAL REVENUE FUNDS | | CAPITAL PROJECTS FUNDS | | | DEBT SERVICE FUNDS | |
|-----------------------|-----------------|-----------------------------|----------------------------|---------------------|-----------------------|------------------|
| Open Space | Measure A | Storm Capital Projects Fund | Town Capital Projects Fund | Pavilion Renovation | Measure K 2000 Series | Total |
| \$15,638 | \$74,097 | | \$150,705 | | | \$334,405 |
| 454 | | | | | | 20,676 |
| <u>\$16,092</u> | <u>\$74,097</u> | | <u>\$150,705</u> | | | <u>\$355,081</u> |
| \$400 | | | \$4,713 | | | \$10,657 |
| 400 | | | 4,713 | | | 10,657 |
| 15,692 | \$74,097 | | 145,992 | | | 344,424 |
| 15,692 | 74,097 | | 145,992 | | | 344,424 |
| <u>\$16,092</u> | <u>\$74,097</u> | | <u>\$150,705</u> | | | <u>\$355,081</u> |

TOWN OF FAIRFAX
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

| | SPECIAL REVENUE FUNDS | | | | |
|---|-----------------------|------------------------|---------------------|------------------------|------------------------|
| | Measure K | Special Police | Fairfax Festival | Measure J | Gas Tax |
| REVENUES | | | | | |
| From other agencies | | \$128,937 | | \$714,576 | \$173,983 |
| Service charges | | | \$38,890 | | |
| Total Revenues | | <u>128,937</u> | <u>38,890</u> | <u>714,576</u> | <u>173,983</u> |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| Parks and recreation | | | 47,029 | | |
| Capital outlay | | | | | |
| Total Expenditures | | | <u>47,029</u> | | |
| REVENUES OVER (UNDER) EXPENDITURES | | <u>128,937</u> | <u>(8,139)</u> | <u>714,576</u> | <u>173,983</u> |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | | | 7,154 | | |
| Transfers (out) | | (120,000) | | (699,100) | (215,000) |
| Total Other Financing Sources (Uses) | | <u>(120,000)</u> | <u>7,154</u> | <u>(699,100)</u> | <u>(215,000)</u> |
| NET CHANGE IN FUND BALANCES | | 8,937 | (985) | 15,476 | (41,017) |
| FUND BALANCE (DEFICIT) | | | | | |
| Beginning of the year | | <u>21,083</u> | <u>985</u> | <u>53,084</u> | <u>51,080</u> |
| End of the year | | <u><u>\$30,020</u></u> | <u><u>985</u></u> | <u><u>\$68,560</u></u> | <u><u>\$10,063</u></u> |

| SPECIAL REVENUE FUND | | CAPITAL PROJECTS FUNDS | | | DEBT SERVICE FUND | Total Nonmajor Governmental Funds |
|----------------------|-----------|-----------------------------|----------------------------|---------------------|-----------------------|-----------------------------------|
| Open Space | Measure A | Storm Capital Projects Fund | Town Capital Projects Fund | Pavilion Renovation | Measure K 2000 Series | |
| \$4,789 | \$203,949 | | | | | \$1,226,234 |
| | | | | | | 38,890 |
| 4,789 | 203,949 | | | | | 1,265,124 |
| 1,154 | | | | | | 48,183 |
| 10,000 | | | \$131,977 | | | 141,977 |
| 11,154 | | | 131,977 | | | 190,160 |
| (6,365) | 203,949 | | (131,977) | | | 1,074,964 |
| 1,000 | 18,893 | | 108,446 | | | 135,493 |
| | (148,745) | | | | | (1,182,845) |
| 1,000 | (129,852) | | 108,446 | | | (1,047,352) |
| (5,365) | 74,097 | | (23,531) | | | 27,612 |
| 21,057 | | | 169,523 | | | 316,812 |
| \$15,692 | \$74,097 | | \$145,992 | | | \$344,424 |

TOWN OF FAIRFAX
 BUDGETED NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING SCHEDULES OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | MEASURE K | | | SPECIAL POLICE | | |
|---|-----------|--------|------------------------------------|------------------|------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| From other agencies | | | | \$100,000 | \$128,937 | \$28,937 |
| Service charges | | | | | | |
| Use of money and property | | | | | | |
| Other revenue | | | | | | |
| Total Revenues | | | | <u>100,000</u> | <u>128,937</u> | <u>28,937</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Parks and recreation | | | | | | |
| Capital outlay | | | | | | |
| Total Expenditures | | | | | | |
| REVENUES OVER (UNDER) EXPENDITURES | | | | <u>100,000</u> | <u>128,937</u> | <u>28,937</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers (in) | | | | | | |
| Transfers (out) | | | | <u>(100,000)</u> | <u>(120,000)</u> | <u>(20,000)</u> |
| Total other financing sources (uses) | | | | <u>(100,000)</u> | <u>(120,000)</u> | <u>(20,000)</u> |
| NET CHANGE IN FUND BALANCES | | | | | <u>8,937</u> | <u>\$8,937</u> |
| FUND BALANCE (DEFICIT) | | | | | | |
| Beginning of the year | | | | | <u>21,083</u> | |
| End of the year | | | | | <u>\$30,020</u> | |

| FAIRFAX FESTIVAL | | | MEASURE J | | | GAS TAX | | |
|------------------|----------|------------------------------------|------------|-----------|------------------------------------|------------|-----------|------------------------------------|
| Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| \$36,000 | \$38,890 | \$2,890 | \$712,099 | \$714,576 | \$2,477 | \$165,150 | \$173,983 | \$8,833 |
| 36,000 | 38,890 | 2,890 | 712,099 | 714,576 | 2,477 | 165,150 | 173,983 | 8,833 |
| 31,700 | 47,029 | (15,329) | | | | | | |
| 31,700 | 47,029 | (15,329) | | | | | | |
| 4,300 | (8,139) | (12,439) | 712,099 | 714,576 | 2,477 | 165,150 | 173,983 | 8,833 |
| (4,300) | 7,154 | 7,154 | (762,099) | (699,100) | 62,999 | (215,000) | (215,000) | |
| (4,300) | 7,154 | 11,454 | (762,099) | (699,100) | 62,999 | (215,000) | (215,000) | |
| | (985) | (\$985) | (\$50,000) | 15,476 | \$65,476 | (\$49,850) | (41,017) | \$8,833 |
| | | | | | | | | (Continued) |
| | 985 | | | 53,084 | | | 51,080 | |
| | | | | \$68,560 | | | \$10,063 | |

TOWN OF FAIRFAX
 BUDGETED NON-MAJOR GOVERNMENTAL FUNDS
 COMBINING SCHEDULES OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2016

| | OPEN SPACE | | | Measure A | | |
|---|-----------------|-----------------|------------------------------------|------------------|------------------|------------------------------------|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| REVENUES | | | | | | |
| From other agencies | \$5,000 | \$4,789 | (\$211) | \$139,852 | \$203,949 | \$64,097 |
| Service charges | | | | | | |
| Use of money and property | | | | | | |
| Other revenue | | | | | | |
| Total Revenues | <u>5,000</u> | <u>4,789</u> | <u>(211)</u> | <u>139,852</u> | <u>203,949</u> | <u>64,097</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Parks and Recreation | 5,000 | 1,154 | 3,846 | | | |
| Capital outlay | | 10,000 | (10,000) | | | |
| Total Expenditures | <u>5,000</u> | <u>11,154</u> | <u>(6,154)</u> | | | |
| REVENUES OVER (UNDER) EXPENDITURES | | <u>(6,365)</u> | <u>(6,365)</u> | <u>139,852</u> | <u>203,949</u> | <u>64,097</u> |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers (in) | 19,000 | 1,000 | (18,000) | 18,893 | 18,893 | |
| Transfers (out) | | | | (158,745) | (148,745) | 10,000 |
| Total other financing sources (uses) | <u>19,000</u> | <u>1,000</u> | <u>(18,000)</u> | <u>(139,852)</u> | <u>(129,852)</u> | <u>10,000</u> |
| NET CHANGE IN FUND BALANCES | <u>\$19,000</u> | <u>(5,365)</u> | <u>(\$24,365)</u> | | <u>74,097</u> | <u>\$74,097</u> |
| FUND BALANCE (DEFICIT) | | | | | | |
| Beginning of the year | | <u>21,057</u> | | | | |
| End of the year | | <u>\$15,692</u> | | | <u>\$74,097</u> | |