

TOWN OF FAIRVIEW, TEXAS

**Financial Statements
(With Auditor's Report Thereon)**

For the Fiscal Year Ended September 30, 2012

TOWN OF FAIRVIEW
 Comprehensive Annual Financial Report
 For the Fiscal Year Ended September 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
and Members of the Town Council
Town of Fairview, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fairview, Texas, as of and for the year ended September 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town of Fairview. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Fairview, Texas, at September 30, 2012, and the respective changes in financial position and cash flows, where applicable, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Honorable Mayor
and Members of the Town Council
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual fund statements and schedules, listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining financial statements and individual fund schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Evans, Pingleton and Howard, PLLC

February 20, 2013

Management's Discussion and Analysis

As management of the Town of Fairview, we offer readers of the Town of Fairview's financial statements this narrative overview and analysis of the financial activities of the Town of Fairview for the fiscal year ended September 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3-5 of this report. All amounts, unless otherwise indicated, are expressed in actual dollars.

Financial Highlights

- The assets of the Town of Fairview exceeded its liabilities at the close of the most recent fiscal year by \$29,230,014 (net assets). Of this amount, \$11,900,166, (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,259,858. The primary reason for the increase in net assets was the excess of operating revenues over expenses in the Proprietary Fund.
- As of the close of the current fiscal year, the Town of Fairview's governmental funds reported combined ending fund balances of \$10,675,869, an increase of \$3,269,278 in comparison with the prior year. The reason for the increase in fund balances is due to a \$4,300,000 bond issue. Approximately \$4,230,732 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$4,320,732 or 77 percent of total general fund expenditures.
- The Town of Fairview's total long-term debt increased by \$3,515,000 during the current fiscal year.

Overview of the Financial Statements

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

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town of Fairview's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town of Fairview that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town of Fairview include general government, public safety, transportation, and recreation. The business-type activities of the Town of Fairview include the water and sewer system.

The government-wide financial statements include only the Town of Fairview itself (known as the primary government). The Economic and Community Development Corporations, although legally separate, function as special revenue funds of the Town of Fairview and therefore have been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 11-13 of this report.

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 of Fairview, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town of Fairview can be divided into two categories: governmental funds and proprietary 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 *near-term inflows and outflows of spendable resources*, as well as *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near term financing requirements.

Because the focus of governmental funds is more narrow 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 fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Fairview maintains six governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and capital projects fund, all of which are considered major funds. Data from the three other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The Town of Fairview adopts an annual appropriated budget for its general fund. Budgetary comparison statements have been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 14-21 of this report.

Proprietary funds. The Town of Fairview maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Fairview uses an enterprise fund to account for its Water and Sewer operations, which includes water, sewer and stormwater impact fees.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer operations, which is considered to be a major fund of the Town of Fairview.

The basic proprietary fund financial statements can be found on pages 22-25 of this report.

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 can be found on pages 26-46 of this report.

Other information: The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the notes to the financial statements. The individual fund schedule provides a budgetary comparison schedule for the enterprise fund. Combining and individual fund statements and schedules can be found on pages 48-50 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Town of Fairview, assets exceed liabilities by \$29,230,014 at the close of the most recent fiscal year.

A portion of the Town of Fairview’s net assets (50 percent) reflects its investment in capital assets (e.g. land, building, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The Town of Fairview uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Fairview’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

TOWN OF FAIRVIEW – Net Assets

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2012	2011	2012	2011	2012	2011
Current and Other Assets	\$ 11,245,869	8,229,388	7,979,635	7,314,010	19,225,504	15,543,398
Capital Assets	23,522,177	22,248,655	14,567,880	14,963,647	38,090,057	37,212,302
Total Assets	34,768,046	30,478,043	22,547,515	22,277,657	57,315,561	52,755,700
Long Term Liabilities	17,930,315	13,807,302	9,476,488	10,096,914	27,406,803	23,904,216
Other Liabilities	266,901	660,446	411,843	220,882	678,744	881,328
Total Liabilities	18,197,216	14,467,748	9,888,331	10,317,796	28,085,547	24,785,544
Net Assets:						
Capital Assets, Net of Related Debt	9,526,012	8,607,474	5,112,179	4,884,946	14,638,191	13,492,420
Restricted	2,477,022	2,805,290	-	-	2,477,022	2,805,290
Unrestricted	4,567,796	4,597,531	7,547,005	7,074,915	12,114,801	11,672,446
Total Net Assets	\$ 16,570,830	16,010,295	12,659,184	11,959,861	29,230,014	27,970,156

An additional portion of the Town’s net assets (9 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$12,114,801 may be used to meet the government’s ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town of Fairview is able to report positive balances in all categories of net assets for the government as a whole.

There was an increase of \$1,145,771 in net assets invested in capital assets, net of related debt. This increase is mainly due to Government Activities unspent bond proceeds.

The Government’s net assets increased by \$1,259,850 mainly due to an excess of Operating Revenues over Operating Expenses in Business-Type Activities.

TOWN OF FAIRVIEW – Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program Revenues:						
Charges for Services	\$ 1,352,382	1,652,164	4,014,686	4,110,328	5,367,068	5,762,492
Operating Grants and Contributions	152,856	84,502	-	-	152,856	84,502
Capital Grants and Contributions	175,907	64,914	-	-	175,907	64,914
General Revenues:						
Property Taxes	4,282,347	4,145,549	-	-	4,282,347	4,145,549
Other Taxes	3,442,392	3,213,865	-	-	3,442,392	3,213,865
Investment Earnings	24,945	33,394	3,628	3,332	28,573	36,726
Other	92,423	178,861	-	-	92,423	178,861
Total Revenues	9,523,252	9,373,249	4,018,314	4,113,660	13,541,566	13,486,909
Expenses:						
General Government	1,404,099	1,869,670	-	-	1,404,099	1,869,670
Public Safety	3,519,801	3,234,582	-	-	3,519,801	3,234,582
Public Works	1,213,024	1,096,916	-	-	1,213,024	1,096,916
Municipal Court	127,309	131,513	-	-	127,309	131,513
Parks and Recreation	83,675	85,378	-	-	83,675	85,378
Economic Development	814,079	384,171	-	-	814,079	384,171
Community Development	778,011	359,881	-	-	778,011	359,881
Interest on Long-Term Debt	504,666	531,122	-	-	504,666	531,122
Water & Sewer	-	-	3,837,044	3,212,911	3,837,044	3,212,911
Total Expenses	8,444,664	7,693,233	3,837,044	3,212,911	12,281,708	10,906,144
Increase in Net Assets Before Transfers	1,078,588	1,680,016	181,270	900,749	1,259,858	2,580,765
Transfers	(518,053)	(741,498)	518,053	741,498	-	-
Increase/(Decrease) in Net Assets	560,535	938,518	699,323	1,642,247	1,259,858	2,580,765
Net Assets - Beginning	16,010,295	15,071,777	11,959,861	10,317,614	27,970,156	25,389,391
Net Assets - Ending	\$16,570,830	16,010,295	12,659,184	11,959,861	29,230,014	27,970,156

Governmental Activities:

- Property tax increased by \$125,738 (3%) during the year.
- Sales tax increased by \$193,059 (7%) during the year.

Business-Type Activities

Business-type activities increased the Town of Fairview's net assets by \$1,642,247.

- Charges for services decreased by \$95,642.
- Operating expenses increased by \$624,133 over the previous year.

Financial Analysis of the Government's Funds

As noted earlier, the Town of Fairview uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Fairview's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Town of Fairview's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available at the end of the fiscal year.

At the end of the current fiscal year, the Town of Fairview's governmental funds reported combined ending fund balance of \$10,703,069, an increase of \$3,296,478 from the prior year. Of the current combined ending fund balance, \$4,198,422 is unassigned, \$2,095,835 is restricted for court, economic and community development, \$381,187 is restricted for retirement of long-term debt, and \$ 3,778,075 is restricted for capital projects.

The general fund is the chief operating fund of the Town of Fairview. At the end of the current fiscal year, unassigned fund balance of the general fund was \$4,198,422. Total unassigned fund balance represents 76% of total general fund expenditures.

Proprietary Funds. The Town of Fairview's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Enterprise Funds at the end of the year amounted to \$7,547,005. The total increase in net assets of the Enterprise Funds was \$699,253. The factors concerning the finances of this fund have already been addressed in the discussion of the Town of Fairview's business type activities.

General Fund Budgetary Highlights

During the year, revenues exceeded budget estimates and expenditures were less than budgetary estimates. The budget had called for a \$369,560 decrease in fund balance. However, due to larger than budgeted transfers to other funds, the fund balance decreased by \$429,405.

Capital Asset and Debt Administration

Capital Assets. The town of Fairview's investment in capital assets for its governmental and business type activities as of September 30, 2012, amounts to \$38,090,057 (net of accumulated depreciation). This investment in capital assets includes land and right-of-way, buildings, systems, improvements, and equipment.

Major capital asset events during the current fiscal year included the following:

- Purchase of land (\$735,260) and construction in progress on three minor projects (\$725,429) were the major additions to governmental activity capital assets.
- Construction in progress on two minor projects (\$64,942) was the major addition to business-type activities capital assets.

Additional information on the Town of Fairview's capital assets can be found in note 3.C. on page 36-37 of this report.

Long-Term Debt. At the end of the current fiscal year, the Town of Fairview had bonded debt outstanding of \$27,225,000. The long-term debt consisted of \$7,240,000 of General Obligation Bonds, and \$19,850,000 of Certificates of Obligation.

Additional information on the Town of Fairview's long-term debt can be found in note 3.F. on pages 38-41 of this report.

Economic Factors and Next Year's Budgets and Rates

- The ad valorem tax rate of \$0.36 per \$100 valuation was maintained in the 2012-13 budget.
- Water rates were increased by 6% after a water rate study was performed.
- Sales taxes are expected to see small but continued increases due to anticipated retail growth.
- The town again budgeted for two full time firefighter positions for 2012-2013.
- The Volunteer fire stipend was increased for 2012-13.
- Noah's conference center, a public private partnership, will be opening in May 2013.
- Bonds will be sold for continued street improvement projects.
- Compensation and Classification plan for town employees will be performed and implemented.

All these factors were considered in preparing the Town of Fairview's budget for the 2013 fiscal year.

Request for Information

This financial report is designed to provide a general overview of the Town of Fairview's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Town Manager, 372 Town Place, Fairview, Texas 75069.

BASIC FINANCIAL STATEMENTS

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TOWN OF FAIRVIEW
Statement of Net Assets
September 30, 2012

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Cash Equivalents	\$ 10,259,089	6,429,439	16,688,528
Restricted Cash and Cash Equivalents		888,360	888,360
Receivables (Net of Allowance for Uncollectibles):			
Property Taxes	50,179	-	50,179
Sales Taxes	474,412	-	474,412
Franchise Taxes	169,560	-	169,560
Utility Bills	37,032	409,570	446,602
Other	1,911	-	1,911
Unamortized Bond Issuance Costs	253,686	252,266	505,952
Capital Assets Not Being Depreciated	3,859,389	178,326	4,037,715
Capital Assets Being Depreciated, Net:	19,662,788	14,389,554	34,052,342
 Total Assets	 <u>34,768,046</u>	 <u>22,547,515</u>	 <u>57,315,561</u>
 LIABILITIES			
Accounts Payable	122,361	50,337	172,698
Accrued Wages Payable	77,974	17,785	95,759
Accrued Interest Payable	27,966	41,288	69,254
Customer Deposits	38,600	106,522	145,122
Deferred Revenue	-	195,911	195,911
Noncurrent Liabilities:			
Due Within One Year	940,446	761,337	1,701,783
Due in More Than One Year	16,989,869	8,715,151	25,705,020
 Total Liabilities	 <u>18,197,216</u>	 <u>9,888,331</u>	 <u>28,085,547</u>
 NET ASSETS			
Invested in Capital Assets, Net of Related Debt	9,526,012	5,112,179	14,638,191
Restricted for:			
Debt Service	381,187	-	381,187
Court	107,202	-	107,202
Economic Development	1,135,160	-	1,135,160
Community Development	853,473	-	853,473
Unrestricted	4,567,796	7,547,005	12,114,801
 Total Net Assets	 <u>\$ 16,570,830</u>	 <u>12,659,184</u>	 <u>29,230,014</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF FAIRVIEW
Statement of Activities
For the Fiscal Year Ended September 30, 2012

Functions/Programs	<u>Expenses</u>	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	\$ 1,404,099	100,225	-	-
Public Safety	3,519,801	267,367	132,932	-
Public Works	1,213,024	984,790	-	175,907
Municipal Court	127,309	-	-	-
Parks and Recreation	83,675	-	19,924	-
Economic Development	814,079	-	-	-
Community Development	778,011	-	-	-
Interest and Fiscal Charges	504,666	-	-	-
Total Governmental Activities	<u>8,444,664</u>	<u>1,352,382</u>	<u>152,856</u>	<u>175,907</u>
Business-Type Activities:				
Water and Sewer	3,837,044	4,014,686	-	-
Total Business-Type Activities	<u>3,837,044</u>	<u>4,014,686</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 12,281,708</u>	<u>5,367,068</u>	<u>152,856</u>	<u>175,907</u>

General Revenues:
Property Taxes
Sales Taxes
Franchise Taxes
Mixed Beverage Tax
Interest Earnings
Miscellaneous
Transfers In (Out)
Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Assets

Primary Government		
Governmental Activities	Business-Type Activities	Total
(1,303,874)	-	(1,303,874)
(3,119,502)	-	(3,119,502)
(52,327)	-	(52,327)
(127,309)	-	(127,309)
(63,751)	-	(63,751)
(814,079)	-	(814,079)
(778,011)	-	(778,011)
(504,666)	-	(504,666)
(6,763,519)	-	(6,763,519)
-	177,642	177,642
-	177,642	177,642
(6,763,519)	177,642	(6,585,877)
4,282,347	-	4,282,347
2,767,152	-	2,767,152
607,726	-	607,726
67,514	-	67,514
24,945	3,628	28,573
92,423	-	92,423
(518,053)	518,053	-
7,324,054	521,681	7,845,735
560,535	699,323	1,259,858
16,010,295	11,959,861	27,970,156
\$ 16,570,830	12,659,184	29,230,014

TOWN OF FAIRVIEW
 Balance Sheet
 Governmental Funds
 September 30, 2012

ASSETS	<u>General Fund</u>	<u>Debt Service Fund</u>
Cash and Cash Equivalents	\$ 3,964,068	381,187
Receivables (Net of Allowance for Uncollectibles):		
Property Taxes	25,544	24,635
Sales Taxes	237,206	-
Franchise Taxes	169,560	-
Utility Bills	37,032	-
Other	1,911	-
Total Assets	<u>\$ 4,435,321</u>	<u>405,822</u>
LIABILITIES & FUND BALANCES		
Liabilities:		
Accounts Payable	97,561	-
Accrued Wages	75,194	-
Deferred Revenue	25,544	24,635
Customer Deposits	38,600	-
Total Liabilities	<u>236,899</u>	<u>24,635</u>
Fund Balances:		
Restricted:		
Court	-	-
Debt Service	-	381,187
Economic Development	-	-
Community Development	-	-
Capital Projects	-	-
Unassigned:	4,198,422	-
Total Fund Balances	<u>4,198,422</u>	<u>381,187</u>
Total Liabilities & Fund Balances	<u>\$ 4,435,321</u>	<u>405,822</u>

The notes to the financial statements are an integral part of this statement.

Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
4,052,425	1,861,409	10,259,089
-	-	50,179
-	237,206	474,412
-	-	169,560
-	-	37,032
-	-	1,911
<u>4,052,425</u>	<u>2,098,615</u>	<u>10,992,183</u>

24,800	-	122,361
-	2,780	77,974
-	-	50,179
-	-	38,600
<u>24,800</u>	<u>2,780</u>	<u>289,114</u>

-	107,202	107,202
-	-	381,187
-	1,135,160	1,135,160
-	853,473	853,473
4,027,625	-	4,027,625
-	-	4,198,422
<u>4,027,625</u>	<u>2,095,835</u>	<u>10,703,069</u>
<u>4,052,425</u>	<u>2,098,615</u>	<u>10,992,183</u>

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TOWN OF FAIRVIEW
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
September 30, 2012

Total Fund Balances - Governmental Funds **\$ 10,703,069**

Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$25,358,590 and the accumulated depreciation was \$(3,109,935). In addition, long-term liabilities, including bonds payable of \$(13,631,299) and capital leases payable of \$(9,882), are not due and payable in the current period, and therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets. 8,607,474

Current year capital outlays of \$2,155,150 and long-term debt principal payments of \$596,941 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net assets. 2,752,091

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to decrease net assets. (27,966)

The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. (881,628)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing \$50,179 of deferred revenue as revenue, recognizing unamortized bond issuance cost of \$253,686, recognizing the issuance of bonds of \$(4,730,000) and recognizing the liabilities associated with compensated absences \$(156,075). The net effect of these reclassifications is to decrease net assets. (4,582,210)

Net Assets of Governmental Activities **\$ 16,570,830**

The notes to the financial statements are an integral part of this statement.

TOWN OF FAIRVIEW
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended September 30, 2012

	<u>General Fund</u>	<u>Debt Service Fund</u>
REVENUES		
Property Taxes	\$ 2,179,661	2,103,779
Sales Tax	1,383,576	-
Franchise Taxes	573,412	-
Mixed Beverage Tax	67,514	-
Charges for Services	668,401	-
Permits	416,614	-
Fines and Forfeitures	249,232	-
Intergovernmental	54,932	-
Street Impact Fees	-	-
Park Fees	-	-
Interest Income	13,552	-
Miscellaneous	92,423	-
Total Revenues	<u>5,699,317</u>	<u>2,103,779</u>
EXPENDITURES		
Current:		
General Government	1,183,692	-
Public Safety	3,235,434	-
Public Works	770,194	-
Inspections	107,811	-
Municipal Court	125,880	-
Parks and Recreation	74,859	-
Economic Development	-	-
Community Development	-	-
Capital Outlay	-	-
Debt Service:		
Principal	-	596,941
Interest and Fiscal Charges	-	525,077
Total Expenditures	<u>5,497,870</u>	<u>1,122,018</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>201,447</u>	<u>981,761</u>
OTHER FINANCING SOURCES (USES)		
Transfers In	327,200	125,000
Transfers Out	(958,052)	(970,253)
Bonds Issued	-	-
Bond Issuance Cost	-	(94,230)
Total Other Financing Sources (Uses)	<u>(630,852)</u>	<u>(939,483)</u>
Net Change in Fund Balances	(429,405)	42,278
Fund Balances - Beginning	<u>4,627,827</u>	<u>338,909</u>
Fund Balances - Ending	<u><u>\$ 4,198,422</u></u>	<u><u>381,187</u></u>

The notes to the financial statements are an integral part of this statement.

<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
-	-	4,283,440
-	1,417,890	2,801,466
-	-	573,412
-	-	67,514
-	-	668,401
-	-	416,614
-	18,135	267,367
78,000	-	132,932
175,907	-	175,907
19,924	-	19,924
7,919	3,474	24,945
-	-	92,423
<u>281,750</u>	<u>1,439,499</u>	<u>9,524,345</u>
-	-	1,183,692
-	-	3,235,434
-	-	770,194
-	-	107,811
-	1,429	127,309
-	-	74,859
-	814,081	814,081
-	778,009	778,009
2,132,177	-	2,132,177
-	-	596,941
-	-	525,077
<u>2,132,177</u>	<u>1,593,519</u>	<u>10,345,584</u>
<u>(1,850,427)</u>	<u>(154,020)</u>	<u>(821,239)</u>
1,148,052	-	1,600,252
-	(190,000)	(2,118,305)
4,730,000	-	4,730,000
-	-	(94,230)
<u>5,878,052</u>	<u>(190,000)</u>	<u>4,117,717</u>
4,027,625	(344,020)	3,296,478
-	2,439,855	7,406,591
<u>4,027,625</u>	<u>2,095,835</u>	<u>10,703,069</u>

TOWN OF FAIRVIEW
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Fiscal Year Ended September 30, 2012

Total Net Change in Fund Balances - Governmental Funds **\$ 3,296,478**

Current year capital outlays of \$2,155,150 and long-term debt principal payments of \$596,941 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net assets. 2,752,091

Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements, interest expenditures are reported when due. The net effect of including accrued interest is to increase net assets. 37,494

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current resources. The net effect of the current year's depreciation is to decrease net assets. (881,628)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue of \$(1,093), as revenue, recognizing the issuance of bonds payable of \$(4,730,000), recognizing the amortization of bond issuance cost of \$(17,083) and recognizing the change in compensated absences of \$(10,046). The net effect of these reclassifications is to decrease net assets. (4,643,900)

Changes in Net Assets of Governmental Activities **\$ 560,535**

TOWN OF FAIRVIEW
Statement of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund
For the Fiscal Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 2,169,764	2,173,600	2,179,661	6,061
Sales Taxes	1,138,241	1,380,000	1,383,576	3,576
Franchise Fees	584,738	570,000	573,412	3,412
Mixed Beverage Tax	-	67,000	67,514	514
Charges for Services	526,578	599,500	668,401	68,901
Permits	224,580	353,450	416,614	63,164
Fines and Forfeitures	281,508	254,100	249,232	(4,868)
Intergovernmental	68,000	55,000	54,932	(68)
Interest Income	-	10,000	13,552	3,552
Miscellaneous	344,843	118,000	92,423	(25,577)
Total Revenues	<u>5,338,252</u>	<u>5,580,650</u>	<u>5,699,317</u>	<u>118,667</u>
EXPENDITURES				
Current:				
General Government	1,624,676	2,410,251	1,183,692	1,226,559
Public Safety	3,390,476	3,242,767	3,235,434	7,333
Public Works	303,583	313,782	770,194	(456,412)
Inspections	121,823	105,944	107,811	(1,867)
Municipal Court	136,952	127,690	125,880	1,810
Parks and Recreation	79,031	76,976	74,859	2,117
Total Expenditures	<u>5,656,541</u>	<u>6,277,410</u>	<u>5,497,870</u>	<u>779,540</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(318,289)</u>	<u>(696,760)</u>	<u>201,447</u>	<u>898,207</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	300,000	327,200	327,200	-
Transfers Out	-	-	(958,052)	(958,052)
Total Other Financing Sources (Uses)	<u>300,000</u>	<u>327,200</u>	<u>(630,852)</u>	<u>(958,052)</u>
Net Change in Fund Balances	(18,289)	(369,560)	(429,405)	(59,845)
Fund Balances - Beginning	<u>4,627,827</u>	<u>4,627,827</u>	<u>4,627,827</u>	<u>-</u>
Fund Balances - Ending	<u>\$ 4,609,538</u>	<u>4,258,267</u>	<u>4,198,422</u>	<u>(59,845)</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF FAIRVIEW
Statement of Net Assets
Proprietary Fund
September 30, 2012

	Business-Type Activities	
	Enterprise Fund Current Year	Enterprise Fund Prior Year
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 6,429,439	6,053,983
Restricted Cash and Cash Equivalents	888,360	838,367
Receivables (Net of Allowance for Uncollectibles)	409,570	153,627
Total Current Assets	7,727,369	7,045,977
Noncurrent Assets:		
Unamortized Bond Issuance Costs	252,266	268,033
Capital Assets Not Being Depreciated	178,326	113,384
Capital Assets Being Depreciated, Net	14,389,554	14,850,263
Total Noncurrent Assets	14,820,146	15,231,680
Total Assets	22,547,515	22,277,657
LIABILITIES		
Current Liabilities:		
Accounts Payable	50,337	63,376
Accrued Wages	17,785	12,139
Compensated Absences	20,787	18,213
Deferred Revenue	195,911	-
Liabilities Payable from Restricted Assets:		
Long-Term Debt - Current Portion	740,550	693,000
Accrued Interest Payable	41,288	52,504
Customer Deposits	106,522	92,863
Total Current Liabilities	1,173,180	932,095
Noncurrent Liabilities:		
Long-Term Debt	8,715,151	9,385,701
Total Noncurrent Liabilities	8,715,151	9,385,701
Total Liabilities	9,888,331	10,317,796
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	5,112,179	4,884,946
Unrestricted	7,547,005	7,074,915
Total Net Assets	\$ 12,659,184	11,959,861

The notes to the financial statements are an integral part of this statement.

TOWN OF FAIRVIEW
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Fiscal Year Ended September 30, 2012

	Business-Type Activities	
	Enterprise Fund Current Year	Enterprise Fund Prior Year
OPERATING REVENUES		
Charges for Services	\$ 4,014,686	4,110,328
Total Operating Revenues	4,014,686	4,110,328
 OPERATING EXPENSES		
Water Purchases	1,338,633	1,010,392
Personnel Services	617,321	571,189
Repairs and Maintenance	84,865	94,115
Operations	963,376	647,349
Depreciation	460,710	451,399
Total Operating Expenses	3,464,905	2,774,444
Operating Income	549,781	1,335,884
 NONOPERATING REVENUES (EXPENSES)		
Interest Revenue	3,628	3,332
Interest Expense	(372,139)	(438,467)
Total Nonoperating Revenues (Expenses)	(368,511)	(435,135)
Income Before Transfers	181,270	900,749
 TRANSFERS		
Transfers In	845,253	1,021,498
Transfers Out	(327,200)	(280,000)
Total Transfers	518,053	741,498
Change in Net Assets	699,323	1,642,247
Net Assets - Beginning	11,959,861	10,317,614
Net Assets - Ending	\$ 12,659,184	11,959,861

The notes to the financial statements are an integral part of this statement.

TOWN OF FAIRVIEW
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended September 30, 2012

	Business-Type Activities	
	Enterprise Fund Current Year	Enterprise Fund Prior Year
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 3,772,402	4,191,448
Cash Paid to Employees for Services	(625,541)	(565,958)
Cash Paid to Suppliers for Goods and Services	(2,187,562)	(1,826,133)
Net Cash Provided/(Used) by Operating Activities	959,299	1,799,357
Cash Flows from Noncapital Financing Activities:		
Advances to Other Funds	-	(427,150)
Advances from Other Funds	-	1,882,428
Transfers to Other Funds	(327,200)	(280,000)
Transfers from Other Funds	845,253	1,021,498
Net Cash Provided/(Used) by Noncapital Financing Activities	518,053	2,196,776
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	(64,942)	(715,181)
Proceeds from Capital Debt	2,325,000	-
Principal Paid on Capital Debt	(2,948,000)	(660,450)
Interest and Fees Paid on Capital Debt	(367,589)	(441,697)
Net Cash (Used) by Capital and Related Financing Activities	(1,055,531)	(1,817,328)
Cash Flows from Investing Activities:		
Interest Received	3,628	3,332
Net Cash Provided by Investing Activities	3,628	3,332
Net Increase/(Decrease) in Cash and Cash Equivalents	425,449	2,182,137
Cash and Cash Equivalents - Beginning	6,892,350	4,710,213
Cash and Cash Equivalents - Ending	\$ 7,317,799	6,892,350

-continued-

TOWN OF FAIRVIEW
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended September 30, 2012
-continued-

Reconciliation of Operating Income to Net Cash Provided
by Operating Activities

	Business-Type Activities	
	Enterprise Fund Current Year	Enterprise Fund Prior Year
Operating Income	\$ 549,781	1,335,884
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation/Amortization	460,710	451,399
(Increase)/Decrease in Accounts Receivable	(255,943)	91,307
Increase in Deferred Revenue	195,911	-
Increase/(Decrease) in Accounts Payable	(13,039)	(74,277)
Increase/(Decrease) in Accrued Wages	5,646	1,878
Increase in Compensated Absences	2,574	3,353
Decrease in Customer Deposits	13,659	(10,187)
Total Adjustments	409,518	463,473
Net Cash Provided by Operating Activities	\$ 959,299	1,799,357

The notes to the financial statements are an integral part of this statement.

TOWN OF FAIRVIEW
Notes to the Financial Statements
September 30, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Fairview, Texas, have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The government is a municipal corporation governed by an elected seven-member council. As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate units, are, in substance part of the government's operations.

Blended Component Units

The Town of Fairview's Economic and Community Development Corporations financial statements are included in the financial statements of the government as a Special Revenue Fund Type. The government exercises oversight responsibility for the corporations in the areas of finance, governance, management, and operations. The Town Council appoints the corporation's directors and may remove them for cause. The Town of Fairview Economic and Community Development Corporations do not prepare separate financial statements.

B. Government-wide and Fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF FAIRVIEW
Notes to the Financial Statements
September 30, 2012
-continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term obligation debt of governmental funds.

The *capital projects fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The government reports the following proprietary fund:

The *enterprise fund* is used to account for those operations that are financed and operated in a manner similar to private business or where the council has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability. The government's enterprise fund is for water and sewer operations.

TOWN OF FAIRVIEW
Notes to the Financial Statements
September 30, 2012
-continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement focus, basis of accounting, and financial statement presentation
(continued)

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, liabilities, and net assets or equity

1. Deposits and Investments

Cash and cash equivalents includes cash on hand, demand deposits, and short-term investments with a maturity date within three months of the date acquired by the government. Other short-term investments are included in investments. Investments are stated at cost.

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

2. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables."

3. Restricted Assets

Certain resources set aside for the repayment of bonds are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. When the government incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first.

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Property, plant, and equipment of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
System infrastructure	40
Equipment	5-10
Vehicles	5

5. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused "paid time off" which can be used for illness, disability, vacation or other absences.

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

5. Compensated Absences (continued)

All paid time off is accrued, when incurred, in the government-wide and proprietary fund financial statements.

6. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund Equity

Fund Balance Classification: The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the Town is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Assets, liabilities, and net assets or equity (continued)

7. Fund equity (continued)

- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Town Council. These amounts cannot be used for any other purpose unless the Town Council removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Town did not have any committed resources as of September 30, 2012.
- Assigned: This classification includes amounts that are constrained by the Town's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the Town Council delegates this authority.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Town considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Town considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed.

As of September 30, 2012, fund balances are composed of the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Nonspendable:	\$ -	-	-	-
Restricted:				
Court	-	-	107,202	107,202
Debt Service	-	381,187	-	381,187
Economic Development	-	-	1,135,160	1,135,160
Community Development	-	-	853,473	853,473
Capital Projects	-	-	4,027,625	4,027,625
Committed:	-	-	-	-
Assigned:	-	-	-	-
Unassigned:	<u>4,198,422</u>	<u>-</u>	<u>-</u>	<u>4,198,422</u>
Total Fund Balances	<u><u>\$4,198,422</u></u>	<u><u>381,187</u></u>	<u><u>6,123,460</u></u>	<u><u>10,703,069</u></u>

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are legally adopted for the general fund and water and sewer fund. All annual appropriations lapse at fiscal year end.

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

1. Prior to September 1, the Town Council prepares a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted by the Town Council through passage of an ordinance prior to the beginning of the fiscal year to which it applies, which can be amended by the Council.
4. The Town Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Town Council.
5. Formal budgetary integration, using the modified accrual basis, is employed as a management control device during the year for the General Fund. One supplemental appropriation was made during the fiscal year.
6. The budget approved for the Water and Sewer Fund follows similar approval procedures but departs from accounting principles generally accepted in the United States of America by not including depreciation and amortization in the approved budget. These amounts are reported at year end as part of the "actual" column. No supplemental appropriations were made during the fiscal year.
7. The Debt Service and Capital Projects Funds do not have formal budgets since all are controlled by contractual obligations approved at inception or as part of the General Fund on an annual basis. The non-major governmental funds are not budgeted.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Encumbered amounts lapse at year end. At year end, encumbrances are canceled or reappropriated as part of the following year budget.

B. Budget/GAAP Reconciliation

The following schedule reconciles the amounts on the Schedule of Revenues, Expenses and Changes in Fund Net Assets - Budget and Actual - Proprietary Fund to the amounts on the Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Fund:

	<u>Water and Sewer Fund</u>
Net Assets (Budget)	\$ 13,119,894
Depreciation	<u>(460,710)</u>
Net Assets (GAAP)	<u>\$ 12,659,184</u>

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Town may invest in obligations of the U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposit, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and investments specifically allowed by the Public Funds Investment Act of 1987 (Article 842a-2 Vernon's Civil Statutes).

At September 30, 2012, the government's carrying amount of deposits was \$7,878,597 and the bank balance of the government's deposits was \$8,590,924. Of the bank balance, \$501,042 was covered by federal depository insurance and \$8,089,882 was covered by collateral held by the pledging financial institution's trust department or agent in the government's name.

In compliance with the Public Funds Investment Act, the Town has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk - Deposits: In the case of deposits this is the risk that, in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law; or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). The Town is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town investments are with the Texas Local Government Investment Pool ("TexPool") and Lone Star Investment Pool ("LoneStar"). The pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investments. Local investment pools operate in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. The reported value of the pools is the same as the fair value of the pool shares. The Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool. Administration of LoneStar is performed by a Board of Directors, which is an administrative agency created under the Interlocal Act. The Town is not exposed to custodial credit risk for its investments.
- c. Credit Risk - This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for TexPool at year end was AAAM by Standard & Poor's. The credit quality rating for LoneStar and TexStar at year end was Aaa by Moody's Investor Service.

-continued-

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and Investments (continued)

- d. Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the Town's investment in external investment pools is less than 60 days.
- e. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. The Town is not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the Town's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. It is the Town's policy to not allow for a concentration of credit risk. Investments issued by the U. S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The Town is not exposed to concentration of credit risk.

At year end, the government's investment balances were as follows:

	<u>Fair Value</u>
Texpool Investment Pool	\$ 6,856,052
LoneStar Investment Pool	<u>2,841,339</u>
Total Investments	<u>\$ 9,697,391</u>

A reconciliation of cash and investments as shown on the Statement of Net Assets is as follows:

Cash on Hand	\$ 900
Carrying Amount of Deposits	7,878,597
Carrying Amount of Investments	<u>9,697,391</u>
Total	<u>\$ 17,576,888</u>
Cash and Cash Equivalents - Unrestricted	\$ 16,688,528
Cash and Cash Equivalents - Restricted	<u>888,360</u>
Total	<u>\$ 17,576,888</u>

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

B. Receivables

Receivables at September 30, 2012 consist of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Property Taxes	25,544	24,635	-	-	50,179
Sales Taxes	237,206	-	237,206	-	474,412
Franchise Taxes	169,560	-	-	-	169,560
Utility Bills	37,598	-	-	421,747	459,345
Other	<u>1,911</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,911</u>
Gross Receivables	471,819	24,635	237,206	421,747	1,155,407
Less: Allowance for Uncollectibles	<u>(566)</u>	<u>-</u>	<u>-</u>	<u>(12,177)</u>	<u>(12,743)</u>
Net Total Receivables	<u><u>\$ 471,253</u></u>	<u><u>24,635</u></u>	<u><u>237,206</u></u>	<u><u>409,570</u></u>	<u><u>1,142,664</u></u>

Taxes are levied on October 1 and are payable until February 1 without penalty. Property taxes attach as an enforceable lien on property as of February 1. No discounts are allowed for early payment. Penalty is calculated after February 1 up to the date collected by the government at the rate of 6% for the first month and increased 1% per month up to a total of 12%. Interest is calculated after February 1 up to the date collected by the government at the rate of 1% per month. Under state law, property taxes on real property constitute a lien on the property and cannot be forgiven without specific approval of the State Legislature. The lien expires at the end of twenty years. Taxes applicable to personal property may be deemed uncollectible by the government. The government's current policy is to write-off uncollectible personal property taxes after four years.

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets

Capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 2,398,700	735,260	-	3,133,960
Construction in Progress	-	725,429	-	725,429
Total Capital Assets Not Being Depreciated	2,398,700	1,460,689	-	3,859,389
Capital Assets Being Depreciated:				
Infrastructure	9,442,822	114,953	-	9,557,775
Buildings and Improvements	10,313,163	163,562	-	10,476,725
Furniture and Equipment	2,688,241	78,250	-	2,766,491
Vehicles	515,664	337,696	(25,000)	828,360
Total Capital Assets Being Depreciated	22,959,890	694,461	(25,000)	23,629,351
Less Accumulated Depreciation	(3,109,935)	(881,628)	25,000	(3,966,563)
Total Capital Assets Being Depreciated, Net	19,849,955	(187,167)	-	19,662,788
Governmental Activities Capital Assets, Net	<u>\$22,248,655</u>	<u>1,273,522</u>	-	<u>23,522,177</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 113,384	-	-	113,384
Construction in Progress	-	64,942	-	64,942
Total Capital Assets Not Being Depreciated	113,384	64,942	-	178,326
Capital Assets Being Depreciated:				
Utility Plant	18,032,848	-	-	18,032,848
Buildings and Improvements	12,271	-	-	12,271
Furniture and Equipment	200,045	-	-	200,045
Vehicles	63,314	-	-	63,314
Total Capital Assets Being Depreciated	18,308,478	-	-	18,308,478
Less Accumulated Depreciation	(3,458,215)	(460,710)	-	(3,918,925)
Total Capital Assets Being Depreciated, Net	14,850,263	(460,710)	-	14,389,553
Business-Type Activities Capital Assets, Net	<u>\$14,963,647</u>	<u>(395,768)</u>	-	<u>14,567,879</u>

-continued-

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

C. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Government Activities:	
General Government	\$ 220,407
Public Safety	317,386
Public Works	335,019
Parks and Recreation	<u>8,816</u>
Total Depreciation Expense - Government Activities	\$ <u>881,628</u>
Business-Type Activities:	
Water and Sewer	\$ <u>460,710</u>
Total Depreciation Expense - Business-Type Activities	<u>\$460,710</u>

D. Interfund Transfers

	Transfer In:			Total
	General Fund	Capital Projects	Water and Sewer	
Transfer Out:				
General Fund	\$ -	958,052	-	958,052
Debt Service	-	-	845,253	845,253
Water and Sewer	327,200	-	-	327,200
Community Development Corporation	-	190,000	-	190,000
	\$ 327,200	1,148,052	845,253	2,320,505

Purpose of Transfers

To pay its share of administration and related costs, the Water and Sewer Fund sent to the General Fund \$300,000. The transfer from the Debt Service Fund to the Water and Sewer Fund in the amount of \$845,253 was for specific debt service payments. The transfer from the General Fund and the Community Development Corporation to the Capital Projects Fund was for construction.

E. Capital Leases

On January 13, 2009, the Town entered into a lease agreement as lessee for financing the acquisition of fire department equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments at the date of inception.

Pursuant to the time of the capital lease agreement, the Town will be required to make minimum payments as follows:

<u>Year Ending</u>	<u>Payment</u>
2013	<u>4,941</u>
Total Minimum Lease Payments	4,941
Less: Amount Representing Interest	-
Present Value of Future Minimum Lease Payments	\$ <u>4,941</u>

This is a non-interest bearing lease.

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-Term Debt

The Town issues general obligation debt (in the form of general obligation bonds and certificates of obligation) to provide funds for the acquisition and construction of major capital facilities. These issues are direct obligations and pledge the full faith and credit of the Town. General obligation debt outstanding as of September 30, 2012, is as follows:

<u>Purpose</u>	<u>Original Amount</u>	<u>Year of Issue</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Balance 9/30/12</u>
General Obligation Bonds:					
Improvements	\$ 2,830,000	2007	2027	4.00%-4.25%	<u>\$ 2,320,000</u>
Certificates of Obligation:					
Improvements	1,135,000	2005	2025	3.87%	830,000
Improvements	300,000	2006	2026	4.00%-4.15%	232,636
Improvements	1,129,780	2007	2027	4.00%-4.25%	926,663
Improvements	3,435,000	2008	2028	3.00%-4.35%	2,945,000
Improvements	3,300,000	2009	2029	2.50%-4.30%	2,925,000
Improvements	3,100,000	2010	2030	2.00%-4.00%	2,860,000
Improvements	1,665,000	2012	2032	.5%-3.815%	1,665,000
Improvements	3,065,000	2012	2032	.5%-3.815%	<u>3,065,000</u>
Total Certificates of Obligation					<u>15,449,299</u>
Total General Obligation Debt					<u><u>\$17,769,299</u></u>

Long-term debt activity for the fiscal year ended September 30, 2012 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds/Certificates of Obligation	\$13,631,299	4,730,000	(592,000)	17,769,299	779,430
Capital Leases	9,882	-	(4,941)	4,941	4,941
Compensated Absences	166,121	156,075	(166,121)	156,075	156,075
Total	<u>\$13,807,302</u>	<u>4,886,075</u>	<u>(763,062)</u>	<u>17,930,315</u>	<u>940,446</u>

The bonds/certificates of obligation will be repaid by the Debt Service Fund. The capital leases and compensated absences will be paid by the General Fund.

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-Term Debt (continued)

The annual requirements to amortize the bonded debt outstanding for the debt service fund, as of September 30, 2012, are as follows:

Fiscal Year Ending	Principal	Interest	Total
2013	\$ 779,450	652,100	1,431,550
2014	811,300	617,870	1,429,170
2015	838,750	594,960	1,433,710
2016	866,200	567,483	1,433,683
2017	898,650	540,187	1,438,837
2018	920,500	510,174	1,430,674
2019	957,950	476,819	1,434,769
2020	982,250	442,289	1,424,539
2021	1,034,700	405,677	1,440,377
2022	1,064,600	366,157	1,430,757
2023	1,102,050	325,071	1,427,121
2024	1,156,350	280,280	1,436,630
2025	1,189,400	233,541	1,422,941
2026	1,165,936	184,659	1,350,595
2027	1,196,213	136,398	1,332,611
2028	950,000	92,797	1,042,797
2029	720,000	59,333	779,333
2030	510,000	35,694	545,694
2031	305,000	20,763	325,763
2032	320,000	9,788	329,788
Total	<u>\$ 17,769,299</u>	<u>6,552,040</u>	<u>24,321,339</u>

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-Term Debt (continued)

The Town issues water and sewer fund revenue bonds and certificates of obligation where the Town pledges income derived from the acquired or constructed assets to pay the debt service. Water and sewer fund debt outstanding as of September 30, 2012, was as follows:

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rates	Balance 9/30/12
General Obligation Bonds:	\$3,470,000	2009	2018	2.00%-4.00%	2,465,000
	2,325,000	2012	2022	2.09%	2,310,000
Total General Obligation Bonds					<u>4,775,000</u>
Certificates of Obligation:					
Improvements	2,000,000	2004	2024	4.00%-4.70%	1,415,000
Improvements	2,180,000	2006	2026	4.00%-4.15%	1,687,364
Improvements	1,930,220	2007	2027	4.00%-4.25%	1,578,337
Total Certificates of Obligation					<u>4,680,701</u>
Total					<u>\$9,455,701</u>

Water and sewer fund debt activity for the fiscal year ended September 30, 2012 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Certificates of Obligation	\$ 7,278,701	-	(2,598,000)	4,680,701	265,550
General Obligation Bonds	2,800,000	2,325,000	(350,000)	4,775,000	475,000
Compensated Absences	18,213	20,787	(18,213)	20,787	20,787
Total	<u>\$ 10,096,914</u>	<u>2,345,787</u>	<u>(2,966,213)</u>	<u>9,476,488</u>	<u>761,337</u>

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 3. DETAILED NOTES ON ALL FUNDS (continued)

F. Long-term Debt (continued)

Annual requirements to amortize all bonded debt outstanding for the water and sewer fund as of September 30, 2012, are as follows:

Fiscal Year Ending	Principal	Interest	Total
2013	\$ 740,550	328,070	1,068,620
2014	773,700	304,264	1,077,964
2015	791,250	279,471	1,070,721
2016	893,800	254,029	1,147,829
2017	931,350	220,773	1,152,123
2018	959,500	185,996	1,145,496
2019	677,050	149,963	827,013
2020	702,750	128,690	831,440
2021	725,300	106,424	831,724
2022	755,400	83,184	838,584
2023	392,950	58,842	451,792
2024	413,650	41,376	455,026
2025	275,600	26,790	302,390
2026	284,064	15,093	299,157
2027	138,787	2,945	141,732
Total	<u>\$ 9,455,701</u>	<u>2,185,910</u>	<u>11,641,611</u>

G. Restricted assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

Customer Deposits	\$ 106,522
Accrued Interest Payable	41,288
Current Revenue CO's Payable	265,550
Current GO Bonds Payable	<u>475,000</u>
Total Restricted Assets	<u>\$ 888,360</u>

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 4. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government is a participant in the Texas Municipal League Workers' Compensation Joint Insurance Fund (WC Fund) and the Texas Municipal League Joint Self-Insurance Fund (Property-Liability Fund), a public entity risk pool operated by the Texas Municipal League Board for the benefit of individual governmental units located with Texas. The Town pays an annual premium to the Funds for its workers' compensation and property and liability insurance coverage. The WC Fund and Property-Liability Fund are considered self-sustaining risk pools that provide coverage for its members for up to \$2,000,000 per insured event. There was no significant reduction in insurance coverage from the previous year. Settled claims for risks have not exceeded insurance coverage for the past three years.

B. Retirement System

Plan Description

The government provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the government are within the options available in the governing statutes of TMRS.

TMRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits, and actuarial methods and assumptions used by the System. This report may be obtained from TMRS' website at www.tmr.com.

The plan provisions are adopted by the governing body of the government, within the options available in the state statutes governing TMRS. Plan provisions for the government were as follows:

	<u>Plan Year 2010</u>	<u>Plan Year 2012</u>
Employee deposit rate	6%	7%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age/ years of service)	60/5, 0/25	60/5, 0/25
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI	0% of CPI

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 4. OTHER INFORMATION (continued)

B. Retirement System (continued)

Contributions:

Under the state law governing TMRS, the contribution rate for each government is determined annually by the actuary, using the Projected Unit Credit actuarial cost method. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the applicable period for that government. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The government contributes to the TMRS Plan at an actuarially determined rate. Both the employees and the government make contributions monthly. Since the government needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect.

The annual pension cost and net pension obligation/(asset) are as follows:

Fiscal Year Ended	Three-Year Trend Information for TMRS		
	Annual Pension Cost (APC) Contributed	Percentage of APC Obligation	Net Pension
9/30/10	\$ 148,451	100%	\$0
9/30/11	\$ 220,029	100%	\$0
9/30/12	\$ 231,342	100%	\$0

The required contribution rates for fiscal year 2012 were determined as part of the December 31, 2008 and 2009 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2010, also follows:

<u>Valuation Date</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level Percent of Payroll	Level Percent of Payroll	Level Percent of Payroll
GASB 25 Equivalent Single Amortization Period	23 Years; Closed Period	25.7 Years; Closed Period	25.1 Years; Closed Period
Amortization Period for New Gains/Losses	25 Years	25 Years	25 Years
Asset Valuation Method	10 - Year Smoothed Market	10 - Year Smoothed Market	10 - Year Smoothed Market

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 4. OTHER INFORMATION (continued)

B. Retirement System (continued)

Contributions (continued)

<u>Valuation Date</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2011</u>
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.00%
Projected Salary Increases*	Varies by Age and Service	Varies by Age and Service	Varies by Age and Service
* Includes Inflation at	3.00%	3.00%	3.00%
Cost-of-Living Adjustments	0.0%	0.0%	0.0%

The funded status as of December 31, 2011, under the two separate actuarial valuations, is presented as follows:

Schedule of Funding Progress for TMRS
(Dollar Amounts in Thousands)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a)/(b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c)</u>
12/31/09	1,340	1,771	431	75.7	\$ 1,894	22.7%
12/31/10	1,754	2,608	854	67.3	\$ 2,226	32.7%
12/31/11	2,256	3,125	869	72.2	\$ 2,579	27.8%

TOWN OF FAIRVIEW
Notes to Financial Statements
September 30, 2012
-continued-

NOTE 4. OTHER INFORMATION (continued)

B. Retirement System (continued)

Funded Status and Funding Progress (continued)

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 continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress above, 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 of benefits.

NOTE 5. EVALUATION OF SUBSEQUENT EVENTS

The City has evaluated subsequent events through February 20, 2013, the date which the financial statements were available to be issued.

**COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES**

NONMAJOR GOVERNMENTAL FUNDS

Court:

This fund is used to account for funds and forfeitures restricted to expenditures for particular purposes.

Economic Development Corporation:

This fund is used to account for state sales tax revenue restricted to expenditure for economic development

Community Development Corporation

This fund is used to account for state sales tax revenue restricted to expenditure for community development.

TOWN OF FAIRVIEW
Combining Balance Sheet
Nonmajor Governmental Funds
September 30, 2012

	Special Revenue Funds			Total
	Court	Economic Development Corporation	Community Development Corporation	Nonmajor Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 107,202	1,019,337	734,870	1,861,409
Receivables (Net of Allowance for Uncollectibles):				
Sales Taxes	-	118,603	118,603	237,206
Total Assets	\$ 107,202	1,137,940	853,473	2,098,615
 LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts Payable	\$ -	-	-	-
Accrued Wages	-	2,780	-	2,780
Total Liabilities	-	2,780	-	2,780
 Fund Balances:				
Restricted:				
Court	107,202	-	-	107,202
Economic Development	-	1,135,160	-	1,135,160
Community Development	-	-	853,473	853,473
Total Fund Balance	107,202	1,135,160	853,473	2,095,835
Total Liabilities & Fund Balances	\$ 107,202	1,137,940	853,473	2,098,615

The notes to the financial statements are an integral part of this statement.

TOWN OF FAIRVIEW
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
September 30, 2012

	<u>Special Revenue Funds</u>			Total Nonmajor Governmental Funds
	<u>Court</u>	<u>Economic Development Corporation</u>	<u>Community Development Corporation</u>	
REVENUES:				
Sales Taxes	\$ -	708,945	708,945	1,417,890
Fines and Forfeitures	18,135	-	-	18,135
Interest Income	-	1,846	1,628	3,474
Total Revenues	<u>18,135</u>	<u>710,791</u>	<u>710,573</u>	<u>1,439,499</u>
EXPENDITURES:				
Current:				
Economic Development	-	814,081	-	814,081
Community Development	-	-	778,009	778,009
Municipal Court	1,429	-	-	1,429
Total Expenditures	<u>1,429</u>	<u>814,081</u>	<u>778,009</u>	<u>1,593,519</u>
Excess/(Deficiency) of Revenues Over/(Under) Expenditures	16,706	(103,290)	(67,436)	(154,020)
OTHER FINANCING SOURCES/(USES):				
Transfers Out	<u>-</u>	<u>-</u>	<u>(190,000)</u>	<u>(190,000)</u>
Net Change in Fund Balances	16,706	(103,290)	(257,436)	(344,020)
Fund Balances - Beginning	<u>90,496</u>	<u>1,238,450</u>	<u>1,110,909</u>	<u>2,439,855</u>
Fund Balances - Ending	<u>\$ 107,202</u>	<u>1,135,160</u>	<u>853,473</u>	<u>2,095,835</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF FAIRVIEW
Schedule of Revenues, Expenses and Changes in Fund Net Assets
Budget and Actual - Proprietary Fund
For the Fiscal Year Ended September 30, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
OPERATING REVENUES				
Charges for Sales and Services	\$ 3,177,979	3,263,818	4,014,686	750,868
Total Operating Revenues	<u>3,177,979</u>	<u>3,263,818</u>	<u>4,014,686</u>	<u>750,868</u>
OPERATING EXPENSES				
Water Purchases	1,412,839	1,412,839	1,338,633	74,206
Personnel Services	555,548	520,545	617,321	(96,776)
Repairs & Maintenance	47,500	62,100	84,865	(22,765)
Operations	739,922	1,307,799	963,376	344,423
Total Operating Expenses	<u>2,755,809</u>	<u>3,303,283</u>	<u>3,004,195</u>	<u>299,088</u>
Operating Income (Loss)	<u>422,170</u>	<u>(39,465)</u>	<u>1,010,491</u>	<u>1,049,956</u>
NONOPERATING REVENUES/(EXPENSES)				
Interest Revenue	-	2,600	3,628	1,028
Interest Expense	-	(416,816)	(372,139)	44,677
Total Nonoperating Revenues (Expenses)	<u>-</u>	<u>(414,216)</u>	<u>(368,511)</u>	<u>45,705</u>
Net Income (Loss) Before Transfers	<u>422,170</u>	<u>(453,681)</u>	<u>641,980</u>	<u>1,095,661</u>
Transfers In	-	984,816	845,253	(139,563)
Transfers Out	(300,000)	-	(327,200)	(327,200)
Total Transfers	<u>(300,000)</u>	<u>984,816</u>	<u>518,053</u>	<u>(466,763)</u>
Change in Net Assets	122,170	531,135	1,160,033	628,898
Net Assets - Beginning	<u>11,959,861</u>	<u>11,959,861</u>	<u>11,959,861</u>	<u>-</u>
Net Assets - Ending	<u>\$ 12,082,031</u>	<u>12,490,996</u>	<u>13,119,894</u>	<u>628,898</u>