

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

To the City Council
City of Fairfield
222 South Mount Street
Fairfield, Texas 75840

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fairfield ("the City") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise the City'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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 City'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 City'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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fairfield as of September 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note K to the financial statements, in 2013 the City adopted the provisions of GASB Statements No. 62 and 63. "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" incorporate deferred outflows of resources and deferred inflows of resources into the financial reporting model.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents 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 City of Fairfield's basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 26, 2014 on our consideration of City of Fairfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fairfield's internal control over financial reporting and compliance.

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

Corsicana, Texas
February 26, 2014

CITY OF FAIRFIELD

222 SOUTH MOUNT STREET

FAIRFIELD, TEXAS 75840

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Fairfield's annual financial report presents our discussion and analysis of the City's financial performance during the year ended September 30, 2013. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

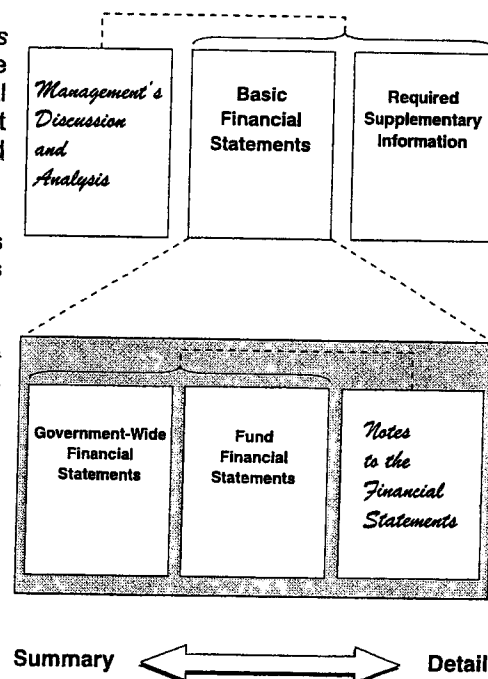
- The City's total combined net position on financial statement exhibit A-1 was \$12,673,672 at September 30, 2013.
- During the year, the City's primary government expenses on financial statement exhibit A-2 were \$106,018 less than the \$6,368,799 generated in taxes and other revenues for all activities.
- The total cost of the City's programs on financial statement exhibit A-5 increased \$101,274 from last year. Capital Expenditures accounted for the major increase.
- The general fund reported a general fund balance this year on financial statement exhibit A-3 of \$769,558. The City began the current year with a general fund balance in the amount of \$723,984.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status, but also a legally separate industrial development corporation. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the City's Annual Financial Report



- *Business Activities* statements provide information about for profit activities.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net position and how it has changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental and Business-type activities*. Most of the City's basic services are included here, such as public safety, sanitation, culture and recreation, street maintenance, water and sewer and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—The City provides water and sewer services to its citizens and charges fees to pay for this service. These activities are accounted for on the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$12.7 million at September 30, 2013. (See Table A-1).

Table A-1
City of Fairfield's Net Position
(In million dollars)

	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change 2013-2012</u>
Current assets:			
Cash and cash equivalents	3.6	3.9	-8
Investments	.0	.0	**
Due from other governments	.0	.0	**
Due from other funds	.0	.0	**
Other receivables	.3	.4	-25
Unamortized debt issuance costs	.1	.1	0
Total current assets:	<u>4.0</u>	<u>4.4</u>	-9
Noncurrent assets:			
Land, furniture and equipment	21.8	21.1	3
Less accumulated depreciation	(9.5)	(8.7)	-9
Other assets	.3	.3	0
Total noncurrent assets	<u>12.6</u>	<u>12.7</u>	-1
Total Assets	<u>16.6</u>	<u>17.1</u>	-3
Current liabilities:			
Accounts payable and accrued liabilities	.1	.6	-83
Consumer deposits	.1	.1	0
Due to other funds	.0	.0	**
Deferred revenue	0	0	**
Total current liabilities	<u>.2</u>	<u>.7</u>	-71
Long-term liabilities:			
Noncurrent liabilities due in one year	.5	.5	0
Noncurrent liabilities due more than 1 yr	3.2	3.3	-3
Total Liabilities	<u>3.9</u>	<u>4.5</u>	-13
Net Position:			
Invested in capital assets, net of debt	8.6	8.5	1
Restricted	1.1	1.2	-8
Unrestricted	3.0	2.9	3
Total Net Position	<u>12.7</u>	<u>12.6</u>	1

The City has restricted net position of \$1,149,686 that represents proceeds for servicing debt of \$327,666 and \$822,020 for economic development. The \$2,953,426 of unrestricted net position represents resources to be available to fund the programs of the City next year.

Changes in net position. The City's total revenues were \$6,368,799. A significant portion, 53 percent, of the City's revenue comes from taxes, while 42 percent relates to charges for services.

The total cost of all programs and services was \$6,262,781; 59 percent of these costs are for governmental activities.

Governmental Activities

- Property tax revenues decreased by \$28,761 to \$692,029.

Table A-2
Changes in City of Fairfield's Net Position
(In million dollars)

	<u>2013</u>	<u>2012</u>	<u>% Ch</u>
Program Revenues:			
Charges for Services	2.7	3.2	-16
Operating Grants and Contributions	.1	.1	0
Capital Grants and Contributions	.0	.0	**
General Revenues:			
Taxes	3.4	3.4	0
Investment Earnings	.0	.0	**
Other	.2	.1	100
Total Revenues	<u>6.4</u>	<u>6.8</u>	<u>-6</u>
General Government	.5	.5	0
Public Safety	1.2	1.3	-8
Highways and Streets	.5	.5	0
Culture and Recreation	.3	.2	50
Public Services	.0	.0	**
Sanitation	.0	.0	**
Water and Sewer	2.6	2.6	0
Economic Development	<u>1.2</u>	<u>1.3</u>	<u>-8</u>
Total Expenses	<u>6.3</u>	<u>6.4</u>	<u>-2</u>
Excess (Deficiency) Before Other Resources, Uses and Transfers:			
Other Resources (Uses)	0	0	**
Transfers In (Out)	0	0	**
Increase (Decrease) in Net Position	<u>.1</u>	<u>.4</u>	<u>-75</u>

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$3.7 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$.692 million.
- Some of the cost was paid by those who directly benefited from services \$.152 million.

Table A-3
Net Cost of Selected City Functions
(in millions of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	<u>2013</u>	<u>2012</u>		<u>2013</u>	<u>2012</u>	
General Government	.5	.5	0	.5	.5	0
Public Safety	1.2	1.3	-8	1.1	1.1	0
Highways and Streets	.5	.5	0	.5	.5	0

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$3.8 million, while the previous year it was \$3.9 million due partly to the decrease in fines. Revenues from business-type activities totaled \$2.6 million, while the previous year it was \$3.0 million. This resulted from decreased volumes, rates and changes in sanitation billing.

General Fund Budgetary Highlights

Over the course of the year, the City revised its budget several times. Even with these adjustments, actual expenditures were \$712,274 below the budgeted amount.

On the other hand, resources available were \$676,222 below the final budgeted amount due to over estimating sales tax revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the City had invested \$21,907,791 in a broad range of capital assets, including land, construction in progress, infrastructure, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$874,548 or 4% percent over last year.

Table A-4
City's Capital Assets
(In millions of dollars)

	<u>2013</u>	<u>2012</u>	Total Percentage Change <u>2013-2012</u>
Land	.4	.4	0
Construction in progress	.0	.0	0
Leased Assets	.1	.8	-88
Equipment and improvements	4.0	2.7	48
Buildings & Water System	16.9	16.7	1
Infrastructure	.4	.3	33
Totals at historical cost	21.8	20.9	4
Total accumulated depreciation	(9.5)	(8.6)	-10
Net capital assets	<u>12.3</u>	<u>12.3</u>	0

The City's fiscal year 2014 capital budget projects spending do not reflect any major projects. More detailed information about the City's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end the City had \$3,744,225 in bonds, notes and leases outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5
City's Long Term Debt
(In millions of dollars)

	<u>2013</u>	<u>2012</u>	<u>Total Percentage Change 2012-2013</u>
Leases payable	.1	.1	0
Bonds payable	3.2	3.7	-14
Notes payable	.4	.0	**
Compensated absences	.0	.0	**
Less deferred amount			
On refundings	(0)	(0)	**
Total bonds & notes payable	<u>3.7</u>	<u>3.8</u>	-3

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's budgetary general fund balance is expected to remain stable by the close of fiscal year 2014. More detailed information about the City's economic status is presented in the notes to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City of Fairfield's Business Services Department at 222 South Mount Street, Fairfield, Texas 75840 or phone number 903-389-2633.

Basic Financial Statements

CITY OF FAIRFIELD
STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
<i>Cash and Cash Equivalents</i>	\$ 1,629,308	\$ 1,887,980	\$ 3,517,288	\$ 1,154,345
<i>Receivables (net of allowances for uncollectibles)</i>	53,078	284,401	337,479	--
<i>Internal Balances</i>	--	--	--	--
<i>Deferred Charges</i>	--	107,608	107,608	--
Restricted Assets:				
<i>Cash</i>	--	286,631	286,631	--
Capital Assets (net of accumulated depreciation):				
<i>Land</i>	118,054	271,361	389,415	2,768,452
<i>Buildings & Equipment, net</i>	3,996,949	7,938,956	11,935,905	53,550
Total Assets	5,797,389	10,776,937	16,574,326	3,976,347
LIABILITIES				
<i>Accounts Payable and Other Current Liabilities</i>	22,385	51,261	73,646	33,073
<i>Consumer Deposits</i>	--	72,248	72,248	--
<i>Accrued Interest Payable</i>	--	10,535	10,535	--
Noncurrent Liabilities-				
<i>Due within one year</i>	70,967	490,000	560,967	72,941
<i>Due in more than one year</i>	463,258	2,720,000	3,183,258	812,492
Total Liabilities	556,610	3,344,044	3,900,654	918,506
NET POSITION				
Net Investment in Capital Assets	3,580,778	4,989,782	8,570,560	--
Restricted For:				
<i>Debt Service</i>	41,035	286,631	327,666	--
<i>Economic Development</i>	822,020	--	822,020	--
Unrestricted	796,946	2,156,480	2,953,426	3,057,841
Total Net Position	\$ 5,240,779	\$ 7,432,893	\$ 12,673,672	\$ 3,057,841

The accompanying notes are an integral part of this statement.

CITY OF FAIRFIELD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
PRIMARY GOVERNMENT:			
Governmental Activities:			
General Government	\$ 468,405	\$ 5,356	\$ 4,603
Public Safety	1,236,724	146,982	--
Highways & Streets	496,378	--	--
Culture & Recreation	261,262	--	--
Economic Development	1,216,603	--	131,003
Interest and Fiscal Charges	15,078	--	--
Total Governmental Activities	<u>3,694,450</u>	<u>152,338</u>	<u>135,606</u>
Business-type Activities:			
City Water and Sewer	2,088,771	2,011,362	--
TDCJ Water & Sewer	479,560	542,618	--
Total Business-type Activities	<u>2,568,331</u>	<u>2,553,980</u>	<u>--</u>
Total Primary Government	<u>\$ 6,262,781</u>	<u>\$ 2,706,318</u>	<u>\$ 135,606</u>
COMPONENT UNIT:			
Industrial Development Corporation	<u>\$ 208,549</u>	<u>\$ --</u>	<u>\$ --</u>
General Revenues:			
Property Taxes			
Sales Taxes			
Franchise Taxes			
Taxes, Hotel-Motel			
License and Permits			
Investment Earnings			
Miscellaneous			
Transfers			
Total General Revenues and Transfers			
Change in Net Position			
Net Position - Beginning			
Net Position - Ending			

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position			
Governmental Activities	Business-type Activities	Total	Component Unit
\$ (458,446)		\$ (458,446)	
(1,089,742)		(1,089,742)	
(496,378)		(496,378)	
(261,262)		(261,262)	
(1,085,600)		(1,085,600)	
(15,078)		(15,078)	
<u>(3,406,506)</u>		<u>(3,406,506)</u>	
--	\$ (77,409)	(77,409)	
--	63,058	63,058	
--	<u>(14,351)</u>	<u>(14,351)</u>	
<u>(3,406,506)</u>	<u>(14,351)</u>	<u>(3,420,857)</u>	
		\$ (208,549)	
692,029	--	692,029	--
2,158,168	--	2,158,168	538,910
264,597	--	264,597	--
286,014	--	286,014	--
19,786	--	19,786	--
5,425	--	5,425	7,897
100,856	--	100,856	900
(230,181)	230,181	--	--
3,296,694	230,181	3,526,875	547,707
(109,812)	215,830	106,018	339,158
5,350,591	7,217,063	12,567,654	2,718,683
<u>\$ 5,240,779</u>	<u>\$ 7,432,893</u>	<u>\$ 12,673,672</u>	<u>\$ 3,057,841</u>

CITY OF FAIRFIELD

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

	General Fund	Hotel/ Motel Fund
Assets:		
<i>Cash and Cash Equivalents</i>	\$ 791,943	\$ 822,020
<i>Receivables (net of allowances for uncollectibles)</i>	12,043	--
Total Assets	\$ 803,986	\$ 822,020
Liabilities:		
Current Liabilities:		
<i>Accounts Payable</i>	\$ 22,385	\$ --
Total Liabilities	22,385	--
Deferred Inflows of Resources:		
<i>Unavailable Revenue-Property Taxes</i>	12,043	--
Total Deferred Inflows of Resources	12,043	--
Fund Balances:		
Restricted Fund Balances:		
<i>Restricted for Economic Development</i>	--	822,020
Committed Fund Balances:		
<i>Committed for Other Purposes</i>	--	--
Unassigned	769,558	--
Total Fund Balance	769,558	822,020
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$ 803,986	\$ 822,020

The accompanying notes are an integral part of this statement.

<u>Debt Service Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -- 41,035	\$ 15,345 --	\$ 1,629,308 53,078
<u>\$ 41,035</u>	<u>\$ 15,345</u>	<u>\$ 1,682,386</u>
 \$ -- --	 \$ -- --	 \$ 22,385 22,385
 41,035 41,035	 -- --	 53,078 53,078
 --	 --	822,020
 --	15,345	15,345
 --	--	769,558
 --	15,345	1,606,923
<u>\$ 41,035</u>	<u>\$ 15,345</u>	<u>\$ 1,682,386</u>

CITY OF FAIRFIELD

*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013*

Total fund balances - governmental funds balance sheet	\$ 1,606,923
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	4,115,003
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	53,078
Payables for capital leases which are not due in the current period are not reported in the funds.	(105,903)
Payables for notes which are not due in the current period are not reported in the funds.	<u>(428,322)</u>
Net position of governmental activities - Statement of Net Position	\$ <u>5,240,779</u>

The accompanying notes are an integral part of this statement.

CITY OF FAIRFIELD

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2013

	General Fund	Hotel/ Motel Fund
Revenue:		
General Property Taxes	\$ 67,111	\$ --
General Sales and Use Taxes	2,158,168	--
Franchise Taxes	264,597	--
Taxes, Hotel-Motel	--	286,014
License and Permits	19,786	--
Intergovernmental	131,003	4,181
Charges for Services	5,356	--
Fines	146,982	--
Investment Earnings	4,815	610
Miscellaneous	100,856	--
Total revenues	<u>2,898,674</u>	<u>290,805</u>
Expenditures:		
Current		
General Government	417,050	--
Public Safety	1,106,851	--
Highway & Streets	444,568	--
Culture & Recreation	233,992	--
Economic Development and Assistance	736,277	353,341
Debt Service		
Principal	64,566	--
Interest and Fiscal Charges	15,078	--
Capital Outlay		
Equipment and Streets	692,932	--
Total Expenditures	<u>3,711,314</u>	<u>353,341</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(812,640)</u>	<u>(62,536)</u>
Other Financing Sources (Uses):		
Operating Transfers In	386,000	--
Note Proceeds	472,214	--
Operating Transfers Out	--	--
Total Other Financing Sources (Uses)	<u>858,214</u>	<u>--</u>
Net Change in Fund Balances	45,574	(62,536)
Fund Balances - Beginning	723,984	884,556
Fund Balances - Ending	<u>\$ 769,558</u>	<u>\$ 822,020</u>

The accompanying notes are an integral part of this statement.

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 616,181	\$ --	\$ 683,292
--	--	2,158,168
--	--	264,597
--	--	286,014
--	--	19,786
--	422	135,606
--	--	5,356
--	--	146,982
--	--	5,425
--	--	100,856
<u>616,181</u>	<u>422</u>	<u>3,806,082</u>
--	--	417,050
--	788	1,107,639
--	--	444,568
--	--	233,992
--	--	1,089,618
--	--	64,566
--	--	15,078
--	--	692,932
<u>--</u>	<u>788</u>	<u>4,065,443</u>
<u>616,181</u>	<u>(366)</u>	<u>(259,361)</u>
--	--	386,000
--	--	472,214
(616,181)	--	(616,181)
<u>(616,181)</u>	<u>--</u>	<u>242,033</u>
--	(366)	(17,328)
--	15,711	1,624,251
<u>\$ --</u>	<u>\$ 15,345</u>	<u>\$ 1,606,923</u>

CITY OF FAIRFIELD

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013*

Net change in fund balances - total governmental funds	\$ (17,328)
--	-------------

Amounts reported for governmental activities in the Statement of Activities
("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	692,932
The depreciation of capital assets used in governmental activities is not reported in the funds.	(386,505)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	8,737
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(472,214)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	20,674
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	<u>43,892</u>

Change in net position of governmental activities - Statement of Activities	\$ <u>(109,812)</u>
---	---------------------

The accompanying notes are an integral part of this statement.

CITY OF FAIRFIELD**STATEMENT OF NET POSITION****PROPRIETARY FUNDS****SEPTEMBER 30, 2013**

	Enterprise Fund City Water & Sewer Fund	Enterprise Fund TDCJ Water & Sewer Fund	Total Enterprise Funds
ASSETS:			
Current Assets:			
<i>Cash and Cash Equivalents</i>	\$ 882,526	\$ 1,005,454	\$ 1,887,980
<i>Receivables (net of allowances for uncollectibles)</i>	237,651	46,750	284,401
Total Current Assets	<u>1,120,177</u>	<u>1,052,204</u>	<u>2,172,381</u>
Noncurrent Assets:			
Restricted Cash, Cash Equivalents and Investments-			
<i>Cash</i>	286,631	--	286,631
<i>Deferred Charges</i>	107,608	--	107,608
Capital Assets:			
<i>Land</i>	271,361	--	271,361
<i>Property, Plant and Equipment-Net</i>	7,226,771	712,185	7,938,956
Total Noncurrent Assets	<u>7,892,371</u>	<u>712,185</u>	<u>8,604,556</u>
Total Assets	<u>9,012,548</u>	<u>1,764,389</u>	<u>10,776,937</u>
LIABILITIES:			
Current Liabilities:			
<i>Accounts payable</i>	31,732	19,529	51,261
<i>Consumer deposits</i>	72,248	--	72,248
<i>Accrued Interest Payable</i>	7,642	2,893	10,535
Current Liabilities Payable from Restricted Assets-			
<i>Revenue bonds payable</i>	333,400	156,600	490,000
Long Term Liabilities Payable from Restricted Assets-			
<i>Revenue Bonds Payable</i>	2,325,500	394,500	2,720,000
Total Liabilities	<u>2,770,522</u>	<u>573,522</u>	<u>3,344,044</u>
NET POSITION:			
Net Investment in Capital Assets	4,831,590	158,192	4,989,782
Restricted For:			
<i>Debt Service</i>	286,631	--	286,631
<i>Unrestricted</i>	1,123,805	1,032,675	2,156,480
Total Net Position	<u>\$ 6,242,026</u>	<u>\$ 1,190,867</u>	<u>\$ 7,432,893</u>

The accompanying notes are an integral part of this statement.

CITY OF FAIRFIELD
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

	Enterprise Fund City Water & Sewer Fund	Enterprise Fund TDCJ Water & Sewer Fund	Total Enterprise Funds
OPERATING REVENUES:			
<i>Water</i>	\$ 1,115,577	\$ 221,803	\$ 1,337,380
<i>Sewer</i>	452,191	180,879	633,070
<i>Miscellaneous</i>	74,039	139,936	213,975
<i>Sanitation</i>	369,555	--	369,555
Total Operating Revenues	<u>2,011,362</u>	<u>542,618</u>	<u>2,553,980</u>
OPERATING EXPENSES:			
<i>Personal Services</i>	430,841	72,403	503,244
<i>Contractual Services</i>	874,990	163,050	1,038,040
<i>Supplies & Materials</i>	209,136	33,074	242,210
<i>Depreciation</i>	481,285	64,379	545,664
<i>Intergovernmental Contracts</i>	--	122,809	122,809
Total Operating Expenses	<u>1,996,252</u>	<u>455,715</u>	<u>2,451,967</u>
Operating Income	<u>15,110</u>	<u>86,903</u>	<u>102,013</u>
NON-OPERATING REVENUES (EXPENSES):			
<i>Interest Expense & Fees</i>	(92,519)	(23,845)	(116,364)
Total Non-operating Revenues (Expenses)	<u>(92,519)</u>	<u>(23,845)</u>	<u>(116,364)</u>
Income before Transfers	<u>(77,409)</u>	<u>63,058</u>	<u>(14,351)</u>
<i>Operating Transfers In</i>	414,507	201,674	616,181
<i>Operating Transfers Out</i>	(386,000)	--	(386,000)
Change in Net Assets	<u>(48,902)</u>	<u>264,732</u>	<u>215,830</u>
Total Net Assets - Beginning	6,290,928	926,135	7,217,063
Total Net Assets - Ending	<u>\$ 6,242,026</u>	<u>\$ 1,190,867</u>	<u>\$ 7,432,893</u>

The accompanying notes are an integral part of this statement.

CITY OF FAIRFIELD**STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS**

FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Enterprise Funds		
	City	TDCJ	Total
	Water & Sewer	Water & Sewer	Enterprise
	Fund	Fund	Fund
Cash Flows from Operating Activities:			
<i>Cash Received from Customers</i>	\$ 2,041,031	\$ 564,351	\$ 2,605,382
<i>Cash Receipts (Payments) for Quasi-external</i>			
<i>Cash Payments to Employees for Services</i>	(430,832)	72,403	(358,429)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(1,318,469)	(453,767)	(1,772,236)
<i>Other Operating Cash Receipts (Payments)</i>	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>291,730</u>	<u>182,987</u>	<u>474,717</u>
Cash Flows from Non-capital Financing Activities:			
<i>Transfers From (To) Other Funds</i>	28,507	201,674	230,181
Net Cash Provided (Used) by Non-capital Financing Activities	<u>28,507</u>	<u>201,674</u>	<u>230,181</u>
Cash Flows from Capital and Related Financing Activities:			
<i>Proceeds from Issuance of Long-term Debt</i>	--	--	--
<i>Principal Paid</i>	(343,100)	(176,900)	(520,000)
<i>Interest Paid</i>	(77,903)	(23,845)	(101,748)
<i>Acquisition or Construction of Capital Assets</i>	(181,616)	--	(181,616)
<i>Contributed Capital</i>	--	--	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(602,619)</u>	<u>(200,745)</u>	<u>(803,364)</u>
Cash Flows from Investing Activities:			
<i>Interest and Dividends on Investments</i>	--	--	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>	<u>--</u>	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(282,382)	183,916	(98,466)
Cash and Cash Equivalents at Beginning of Year	1,164,908	821,538	1,986,446
Cash and Cash Equivalents at End of Year	<u>\$ 882,526</u>	<u>\$ 1,005,454</u>	<u>\$ 1,887,980</u>
Reconciliation of Operating Income to Net Cash			
Provided by Operating Activities:			
<i>Operating Income (Loss)</i>	\$ 15,110	\$ 86,903	\$ 102,013
Adjustments to Reconcile Operating Income to Net Cash			
<i>Provided by Operating Activities</i>			
<i>Depreciation</i>	481,285	64,379	545,664
Change in Assets and Liabilities:			
<i>Decrease (Increase) in Receivables</i>	29,669	21,733	51,402
<i>Decrease (Increase) in Restricted Cash</i>	50	--	50
<i>Increase (Decrease) in Accounts Payable</i>	(224,525)	10,901	(213,624)
<i>Increase (Decrease) in Accrued Expenses</i>	(929)	(929)	(1,858)
<i>Increase (Decrease) in Consumer Deposits</i>	(8,930)	--	(8,930)
Total Adjustments	<u>276,620</u>	<u>96,084</u>	<u>372,704</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 291,730</u>	<u>\$ 182,987</u>	<u>\$ 474,717</u>

The accompanying notes are an integral part of this statement.

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Significant Accounting Policies

The combined financial statements of City of Fairfield (the "City") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The City's basic financial statements include the accounts of all its operations. The City evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the City's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City
- the exclusion of the organization would result in misleading or incomplete financial statements

Based on these criteria, the City has one component unit. Additionally, the City is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

The City reports the following major governmental funds:

General Fund. This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Hotel/Motel Fund. This fund collects lodging tax receipts and spends funds in accordance with promotion of the community.

Debt Service Fund. This fund collects property taxes dedicated to bond payments and accounts for the disbursement of those funds.

The City reports the following major enterprise funds:

City Water and Sewer Fund. This is the City's primary enterprise operating fund and accounts for all customers and financial resources of the enterprise fund.

TDCJ Water and Sewer Fund. This is the City's primary enterprise operating fund and accounts for all revenue and expenses associated with providing servicing to the TDCJ unit.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The City records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the 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. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	25
Buildings	50
Building Improvements	30-40
Vehicles	10
Office Equipment	10
Computer Equipment	10

e. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There is an allowance for uncollectible taxes of \$53,078 included.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Compensated Absences

On retirement or death of certain employees, the City pays any accrued sick leave and vacation leave in a lump case payment to such employee or his/her estate. These items will be recorded as expenses when funds are expended.

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

h. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the City's City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the City Council. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the City Council or by an official or body to which the City Council delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

i. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues and expenditures, expenses, and other disclosures. Accordingly, actual results could differ from those estimates.

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

j. Deferred Outflows and Inflows of Resources

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

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

4. Budgetary Data

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to the beginning of the fiscal year, the City prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the City Council is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must have been given.
- c. Prior to the start of the fiscal year, the budget is legally enacted through passage of a resolution by the City Council.

Once a budget is approved, it can be amended only by approval of a majority of the members of the City Council. As required by law, such amendments are made before the fact, are reflected in the official minutes of the City Council and are not made after fiscal year end. During the year, the budget was amended as necessary. All budget appropriations lapse at year end.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At September 30, 2013, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,803,919 and the bank balance was \$4,170,085. The City's cash deposits at September 30, 2013 and during the year ended September 30, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the general purpose financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2013 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit included in cash total	N/A	\$ 275,000
Total Investments		\$ 275,000

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

At September 30, 2013, the City's investments, other than those which are obligations of or guaranteed by the U.S. Government, have no credit risk.

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name.

At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the City was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

D. Capital Assets

Capital asset activity for the year ended September 30, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 118,054	\$ --	\$ --	\$ 118,054
Total capital assets not being depreciated	118,054	--	--	118,054
<i>Capital assets being depreciated:</i>				
Infrastructure	260,416	150,761	--	411,177
Buildings and improvements	2,680,854	--	--	2,680,854
Equipment	1,787,510	1,197,937	--	2,985,447
Leased Assets	782,343	--	655,766	126,577
Total capital assets being depreciated	5,511,123	1,348,698	655,766	6,204,055
Less accumulated depreciation for:				
Infrastructure	(10,416)	(16,446)	--	(26,862)
Buildings and improvements	(582,960)	(94,131)	--	(677,091)
Equipment	(662,486)	(223,766)	--	(886,252)
Leased Assets	(564,739)	(52,162)	--	(616,901)
Total accumulated depreciation	(1,820,601)	(386,505)	--	(2,207,106)
Total capital assets being depreciated, net	3,690,522	962,193	655,766	3,996,949
Governmental activities capital assets, net	\$ 3,808,576	\$ 962,193	\$ 655,766	\$ 4,115,003

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 271,361	\$ --	\$ --	\$ 271,361
Total capital assets not being depreciated	271,361	--	--	271,361
<i>Capital assets being depreciated:</i>				
Buildings and improvements	14,040,253	181,616	--	14,221,869
Equipment	1,092,452	--	--	1,092,452
Total capital assets being depreciated	15,132,705	181,616	--	15,314,321
Less accumulated depreciation for:				
Buildings and improvements	(5,784,046)	(498,867)	--	(6,282,913)
Equipment	(1,045,655)	(46,797)	--	(1,092,452)
Total accumulated depreciation	(6,829,701)	(545,664)	--	(7,375,365)
Total capital assets being depreciated, net	8,303,004	(364,048)	--	7,938,956
Business-type activities capital assets, net	\$ 8,574,365	\$ (364,048)	\$ --	\$ 8,210,317

Depreciation was charged to functions as follows:

General Government	\$ 51,355
Public Safety	129,085
Highways and Streets	51,810
Culture and Recreation	27,270
Economic Development Assistance	126,985
	<u>\$ 386,505</u>

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

E. Interfund Balances and Activity

1. Due To and From Other Funds

There were no due to and due from other funds at at September 30, 2013.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2013, consisted of the following:

Transfers From	Transfers To	Amount	Reason
City W&S Fund	General Fund	\$ 386,000	Supplement other funds sources
Debt Service Fund	City W&S Fund	414,507	Supplement other funds sources
Debt Service Fund	TDCJ W&S Fund	201,674	Supplement other funds sources
	Total	<u>\$ 1,002,181</u>	

There were no transfers to and from other funds at September 30, 2013.

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2013, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Capital leases	\$ 126,577	\$ --	\$ (20,674)	\$ 105,903	\$ 21,646
Notes	--	472,214	(43,892)	428,322	49,321
Total governmental activities	<u>\$ 126,577</u>	<u>\$ 472,214</u>	<u>\$ (64,566)</u>	<u>\$ 534,225</u>	<u>\$ 70,967</u>

Leases

The City owes \$288,049 at the rate of 4.71% for fire trucks. The leases are repayable in annual payments of \$92,459 to \$26,328 ending in 2018. The balance at September 30, 2013 is \$105,903.

Loans

The City borrowed \$452,669 at the rate of 3.33% for a fire truck. The loan is repayable in annual payments of \$53,316 ending in 2022. The balance at September 30, 2013 is \$408,777.

The City borrowed \$19,545 at the rate of 2.95% for a pickup. The loan is repayable in annual payments of \$10,207 ending in 2015. The balance at September 30, 2013 is \$19,545.

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-type activities:					
Combination Tax and Rev Bnd	\$ 2,465,000	\$ --	\$ (215,000)	\$ 2,250,000	\$ 220,000
Water & Sewer Refunding Bn	1,265,000	--	(305,000)	960,000	270,000
Total business-type activities	<u>\$ 3,730,000</u>	<u>\$ --</u>	<u>\$ (520,000)</u>	<u>\$ 3,210,000</u>	<u>\$ 490,000</u>

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Bonds

This is an original \$4,415,000, 2002 Series Water & Sewer Combination Bonds, due in annual installments ranging from \$185,000 to \$280,000 @ .25% to 2.90% interest rate maturing September 2022. The balance at September 30, 2013 is \$2,250,000.

This is an original \$1,735,000, 2010 Series Water & Sewer Refunding Bonds, due in annual installments ranging from \$110,000 to \$305,000 @ 2.013% interest rate maturing July 2020. The balance at September 30, 2013 is \$960,000. The issue was used to retire three series of previously issued bonds.

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2013, are as follows:

<u>Year Ending September 30.</u>	<u>Governmental Activities-Leases</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 21,646	\$ 4,682	\$ 26,328
2015	22,664	3,664	26,328
2016	23,685	2,646	26,331
2017	24,703	1,628	26,331
2018	13,205	610	13,815
Totals	<u>\$ 105,903</u>	<u>\$ 13,230</u>	<u>\$ 119,133</u>

<u>Year Ending September 30.</u>	<u>Governmental Activities-Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 49,321	\$ 577	\$ 49,898
2015	50,929	292	51,221
2016	42,381	10,935	53,316
2017	43,794	9,522	53,316
2018	45,254	8,062	53,316
2019-2023	196,643	16,656	213,299
Totals	<u>\$ 428,322</u>	<u>\$ 46,044</u>	<u>\$ 474,366</u>

<u>Year Ending September 30.</u>	<u>Business-type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 490,000	\$ 80,600	\$ 570,600
2015	340,000	70,580	410,580
2016	345,000	63,320	408,320
2017	350,000	55,716	405,716
2018	365,000	46,656	411,656
2019-2023	1,320,000	90,322	1,410,322
Totals	<u>\$ 3,210,000</u>	<u>\$ 407,194</u>	<u>\$ 3,617,194</u>

3. Capital Leases

Lease payments during the year were: \$ 26,328

The effective interest rate on capital leases is 4.710%.

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

G. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2013, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool ("TML"). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

H. Pension Plan

1. Plan Description

The City's pension plan ("Plan") is a non-traditional, joint contributory, defined benefit plan which provides retirement, disability and death benefits to Plan members and beneficiaries through its affiliation with Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. TMRS operates under the authority of Texas Government Code, Title 8, Subtitle G. The Texas legislature has the authority to establish or amend benefit provisions and the governing body of the City adopts the plan provisions within the options and constraints established by the legislature. TMRS issues a publicly available financial report that includes financial statements and required supplementary information for TMRS. That report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, TX 78714-9153 or calling (800) 924-8677. Additional nonauthoritative information is available at the TMRS web site, <http://www.tmrs.org>.

2. Funding Policy

Plan members are required to contribute 5% of their annual covered salary. The City is required to contribute at an actuarially determined rate; the current rate is 5% of annual covered payroll. The City's contributions to the TMRS for the years ending September 30, 2013, 2012 and 2011 were \$77,812, \$109,069 and \$102,621, respectively, and were equal to the required contributions for each year.

3. Annual Pension Cost

The City's annual pension cost of \$77,812 for the Plan was equal to the City's required and actual contributions. Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. When the City periodically adopts updated service credits and increases in annuities in effect, the increased unfunded actuarial liability is to be amortized over a new 25-year period. Currently, the unfunded actuarial liability is being amortized over the 25-year period which began January 1997. The unit credit actuarial cost method is used for determining the City's contribution rate. Since the City needs to know its contribution rate in advance to budget for it, there is a one-year delay between the actuarial valuation that is the basis for the rate and the calendar year when the rate goes into effect (i.e., December 31, 1997 valuation is effective for rates beginning January 1999).

CITY OF FAIRFIELD
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Since the TMRS does not value the assets of individual cities, the actuarial assumptions used to set the required contribution rate of the City are based on TMRS as a whole. For the December 31, 1997 valuation date, an 8% investment rate of return was assumed. No assumptions were made for projected salary increases, inflation or cost of living adjustments.

4. Trend Information for the Plan

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
September 30, 2011	\$ 102,621	\$ 100%	\$ --
September 30, 2012	109,069	100%	--
September 30, 2013	77,812	100%	--

Health Care Coverage

During the year ended September 30, 2013, employees of the City were covered by a health insurance plan (the Plan). The City paid premiums of \$490 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the City and the third party administrator is renewable October 1, 2013, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Texas Municipal League are available for the year ended December 31, 2013, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Commitments and Contingencies

Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Litigation

No reportable litigation was pending against the City at September 30, 2013.

Accounting Pronouncement

During 2013 the City adopted the provisions of GASB Statements No. 62 and 63. "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements" specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position" incorporate deferred outflows of resources and deferred inflows of resources into the financial reporting model.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CITY OF FAIRFIELD

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-1

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenue:				
General Property Taxes	\$ 59,807	\$ 59,807	\$ 67,111	\$ 7,304
General Sales and Use Taxes	2,700,000	2,700,000	2,158,168	(541,832)
Franchise Taxes	290,500	290,500	264,597	(25,903)
Licenses and Permits	3,500	3,500	19,786	16,286
Intergovernmental	142,116	142,116	131,003	(11,113)
Charges for Services	6,000	6,000	5,356	(644)
Investment Earnings	200,000	200,000	146,982	(53,018)
Miscellaneous	2,000	2,000	4,815	2,815
Total revenues	<u>3,574,896</u>	<u>3,574,896</u>	<u>2,898,674</u>	<u>(676,222)</u>
Expenditures:				
General Government	468,114	468,114	417,050	51,064
Public Safety	1,391,298	1,282,726	1,106,851	175,875
Highway & Streets	620,409	620,409	444,568	175,841
Culture & Recreation	391,188	391,188	233,992	157,196
Economic Development and Assistance	887,151	887,151	736,277	150,874
Municipal	--	65,000	64,566	434
Interest and Fiscal Charges	--	16,000	15,078	922
Equipment	193,190	693,000	692,932	68
Total Expenditures	<u>3,951,350</u>	<u>4,423,588</u>	<u>3,711,314</u>	<u>712,274</u>
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	<u>(376,454)</u>	<u>(848,692)</u>	<u>(812,640)</u>	<u>36,052</u>
Financing Sources (Uses):				
Operating Transfers In	386,738	386,738	386,000	(738)
Transfers in-Note Proceeds	--	472,238	472,214	(24)
Total Other Financing Sources (Uses)	<u>386,738</u>	<u>858,976</u>	<u>858,214</u>	<u>762</u>
Net Change in Fund Balances	10,284	10,284	45,574	35,290
Balances - Beginning	723,984	723,984	723,984	--
Balances - Ending	<u>\$ 734,268</u>	<u>\$ 734,268</u>	<u>\$ 769,558</u>	<u>\$ 35,290</u>

CITY OF FAIRFIELD
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED SEPTEMBER 30, 2013

EXHIBIT B-2

	Budget	Actual	Variance Positive (Negative)
Revenue:			
General Property Taxes	\$ 623,606	\$ 616,181	\$ (7,425)
Total revenues	<u>623,606</u>	<u>616,181</u>	<u>(7,425)</u>
Expenditures:			
Total Expenditures	<u>--</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>623,606</u>	<u>616,181</u>	<u>(7,425)</u>
Other Financing Sources (Uses):			
Operating Transfers Out	(623,606)	(616,181)	7,425
Total Other Financing Sources (Uses)	<u>(623,606)</u>	<u>(616,181)</u>	<u>7,425</u>
Net Change in Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>
Fund Balances - Beginning	--	--	--
Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

ANDERSON, MARX & BOHL, P.C.

REGISTERED PUBLIC ACCOUNTANTS

HUDSON ANDERSON, CPA

FRANK MARX, III, CPA

AND BOHL, CPA & CFE

Independent Auditors' Report on Internal Control over Financial Reporting
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

City Council
City of Fairfield
22 South Mount Street
Fairfield, Texas 75840

Members of the City Council:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fairfield, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise City of Fairfield's basic financial statements, and have issued our report thereon dated February 26, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Fairfield's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Fairfield's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Fairfield's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2013-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fairfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

Wesley, Texas

February 26, 2014

CITY OF FAIRFIELD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED SEPTEMBER 30, 2013

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

X Yes

No

One or more significant deficiencies identified that
are not considered to be material weaknesses?

Yes

X None Reported

Noncompliance material to financial
statements noted?

Yes

X No

B. Financial Statement Findings

2013-1 Cash Reconciliations

Condition: Some reconciliations do not tie to the general ledger.

Criteria: Internal control procedures should be in place to assure that reconciliations tie to the general ledger.

Effect: Without a monthly reconciliation being tied to the general ledger, controls are not functioning as designed.

Cause: The year end reconciliations of the accounts did not take into account stale items. This produced the wrong ending reconciled balances.

Recommendation: The District needs to tie its reconciled balances to the balances that are present in the general ledger, investigate any differences and make proper adjustments.

District's response: The District will tie its reconciled balances to the general ledger.

CITY OF FAIRFIELD***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2013***

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
-------------------------------	-----------------------	--

None noted

CITY OF FAIRFIELD

CORRECTIVE ACTION PLAN

FOR THE YEAR ENDED SEPTEMBER 30, 2013

The City will expend additional effort to make the reconciliation process function properly. Jana Taylor at 937-389-2633 will be responsible.

CITY OF FAIRFIELD

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2014

City of Fairfield
Annual Financial Report
For The Year Ended September 30, 2014

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Financial Section

ANDERSON, MARX & BOHL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

**HUDSON ANDERSON, CPA
FRANK MARX, III, CPA
DORI BOHL, CPA & CFE**

Independent Auditors' Report

To the City Council
City of Fairfield
222 South Mount Street
Fairfield, Texas 75840

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fairfield ("the City") as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the City'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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 City'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 City'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, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Fairfield as of September 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note L to the financial statements, in 2014, City of Fairfield adopted new accounting guidance, Government Accounting Standards Board Statement No. 65 and No. 66, *Items Previously Reported as Assets and Liabilities* and *Technical Corrections-2012 - An Amendment of GASB Statements No. 10 and No. 62*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information and schedule of funding progress for Other Post Employment Benefits identified as Required Supplementary Information in the table of contents 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 City of Fairfield's basic financial statements.

The other supplementary 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 18, 2015 on our consideration of City of Fairfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Fairfield's internal control over financial reporting and compliance.

Anderson, Marx & Bohl, P.C.

Anderson, Marx & Bohl, P.C.

Corsicana, Texas
March 18, 2015

CITY OF FAIRFIELD

222 SOUTH MOUNT STREET

FAIRFIELD, TEXAS 75840

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Fairfield's annual financial report presents our discussion and analysis of the City's financial performance during the year ended September 30, 2014. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

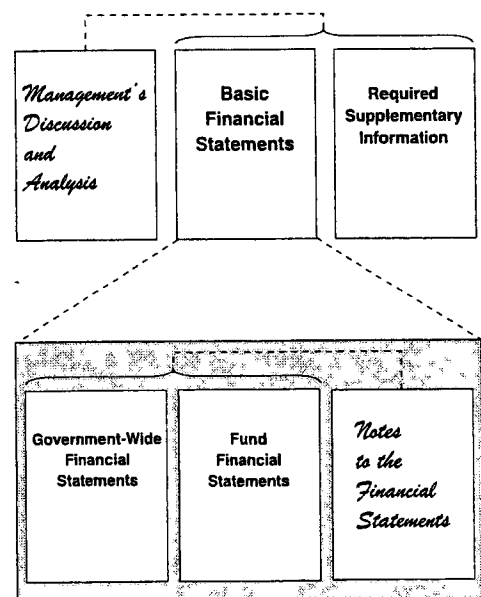
- The City's total combined net position on financial statement exhibit A-1 was \$12,511,301 at September 30, 2014.
- During the year, the City's primary government expenses on financial statement exhibit A-2 were \$54,763 more than the \$6,578,954 generated in taxes and other revenues for all activities. The total cost of the City's programs on financial statement exhibit A-5 decreased \$102,983 from last year. Capital Expenditures accounted for the major decrease.
- The general fund reported a general fund balance this year on financial statement exhibit A-3 of \$847,532. The City began the current year with a general fund balance in the amount of \$769,558.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status, but also a legally separate industrial development corporation. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.
- *Business Activities* statements provide information about for profit activities.

Figure A-1, Required Components of the City's Annual Financial Report



Summary ↔ Detail

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Government-wide Statements

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid. The two government-wide statements report the City's net position and how it has changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental and Business-type activities*. Most of the City's basic services are included here, such as public safety, sanitation, culture and recreation, street maintenance, water and sewer and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has the following kinds of funds:

- *Governmental funds*—Most of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—The City provides water and sewer services to its citizens and charges fees to pay for this service. These activities are accounted for on the accrual basis of accounting.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$12.5 million at September 30, 2014. (See Table A-1).

Table A-1
City of Fairfield's Net Position
(In million dollars)

	<u>2014</u>	<u>2013</u>	Total Percentage Change <u>2014-2013</u>
Current assets:			
Cash and cash equivalents	3.8	3.6	6
Investments	.0	.0	**
Due from other governments	.0	.0	**
Due from other funds	.0	.0	**
Other receivables	.4	.3	33
Unamortized debt issuance costs	.0	.1	**
Total current assets:	<u>4.2</u>	<u>4.0</u>	5
Noncurrent assets:			
Land, furniture and equipment	21.9	21.8	0
Less accumulated depreciation	(10.5)	(9.5)	-11
Other assets	.3	.3	0
Total noncurrent assets	<u>11.7</u>	<u>12.6</u>	-7
Total Assets	<u>15.9</u>	<u>16.6</u>	-4
Current liabilities:			
Accounts payable and accrued liabilities	.1	.1	0
Consumer deposits	.1	.1	0
Due to other funds	.0	.0	**
Deferred revenue	0	0	**
Total current liabilities	<u>.2</u>	<u>.2</u>	0
Long-term liabilities:			
Noncurrent liabilities due in one year	.4	.5	-20
Noncurrent liabilities due more than 1 yr	2.8	3.2	-13
Total Liabilities	<u>3.4</u>	<u>3.9</u>	-13
Net Position:			
Invested in capital assets, net of debt	8.2	8.6	-5
Restricted	1.0	1.1	-9
Unrestricted	3.3	3.0	10
Total Net Position	<u>12.5</u>	<u>12.7</u>	-2

The City has restricted net position of \$963,177 that represents proceeds for servicing debt of \$287,293, (\$57) for capital projects and \$675,941 for economic development. The \$3,337,738 of unrestricted net position represents resources to be available to fund the programs of the City next year.

Changes in net position. The City's total revenues were \$6,578,954. A significant portion, 56 percent, of the City's revenue comes from taxes, while 39 percent relates to charges for services.

The total cost of all programs and services was \$6,633,717; 64 percent of these costs are for governmental activities.

Governmental Activities

- Property tax revenues increased by \$51,123 to \$743,152.