

CITY OF BEL AIRE, KANSAS

**Financial Statements
December 31, 2011**

**with
Independent Auditors' Report**

CITY OF BEL AIRE, KANSAS

Financial Statements

December 31, 2011

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and City Council
City of Bel Aire, Kansas

We have audited the accompanying financial statements of the governmental activities, the proprietary activities, each major fund, and the aggregate remaining fund information of the City of Bel Aire, Kansas as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Bel Aire's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the proprietary activities, each major fund, and the aggregate remaining fund information of the City of Bel Aire, Kansas, as of December 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 11 and 17 through 24 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City of Bel Aire's basic financial statements as a whole. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Peterson Peterson & Zoss, LC

October 8, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF BEL AIRE, KANSAS
December 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

This section of the City's annual financial report is designed to provide readers with an overview and analysis of the financial activities during the fiscal year ended December 31, 2011. Please read it in conjunction with the City's financial statements which follow this section.

Financial Highlights – Year 2011

- Net assets increased by \$148,834
- The assets of the City exceeded its liabilities at the close of 2011 by \$15,472,034
- At the end of 2011, the fund balance for the general fund was \$1,846,782 compared to \$1,538,622 for 2010.
- Temporary notes decreased by \$1,520,000; general obligation bonds decreased by \$1,115,000; revenue bonds decreased by \$100,000.
- Government activity revenues and charges for services amounted to \$3,872,858.
- Government activity expenses, including depreciation, amounted to \$6,174,122.
- The City made principal payments on debt in the amount of \$4,115,000 and issued new debt in the amount of \$4,345,000.
- Contractual indebtedness decreased from \$56,785,000 to \$54,050,000.
- Capital assets, after accumulated depreciation, amounted to \$49,439,137 for governmental and \$10,962,286 for proprietary activities.
- At year-end, the City had unrestricted cash of \$7,533,731.
- Restricted debt service fund cash amounted to \$85,265 at year-end.
- The Public Building Commission is reported as a blended component unit. PBC capital assets, at cost, amounted to \$26,139,420 (including land project costs of \$21,401,520).
- Land project sales amounted to \$848,462 in the General Fund, compared to \$12,111 for the year 2010.

Overview of the Financial Statements

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

CITY OF BEL AIRE, KANSAS

December 31, 2011

(Unaudited)

Government-Wide Financial Statements

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

The Statement of Net Assets is prepared on the accrual basis and presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities is focused on both the gross and net cost of various functions (including governmental, proprietary and the blended component unit), which are supported by the City of Bel Aire's general tax and other revenues. This is intended to summarize and simplify the analysis of costs of various governmental services and/or subsidies to various proprietary activities and/or component units. The statement is prepared on the accrual basis of accounting.

Governmental activities reflect the City's basic services including general government, police, community development, law/municipal court, employee benefits, streets and highways, parks and grounds, and recreation. Property, sales, gasoline and motor vehicle taxes along with franchise and court fees and licenses and permits finance the majority of these services. The proprietary activities reflect private sector type operations for water and sewer utilities where the fees for service should cover all or most of the cost of operations including depreciation.

Fund Financial Statements

The fund financial statements provide more detailed information about the City's most significant funds (major funds) – not the City as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into two categories – governmental and proprietary.

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 be readily converted to cash) flows in and out, and 2) the balances left at year-end that are available for spending. The governmental funds statements provide a detailed short-term view that helps determine the level of financial resources that can be spent in the near future to finance City programs.

The general fund is the main operating fund of the City.

CITY OF BEL AIRE, KANSAS

December 31, 2011

(Unaudited)

Proprietary Funds – Services for which the City charges customers a fee are generally reported in the proprietary funds. The sewer and water utilities comprise the proprietary funds for the City of Bel Aire. Statements for the proprietary funds provide both long and short-term financial information.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the governmental and proprietary fund financial statements.

Contacting the City's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and demonstrates the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director, 7651 E. Central Park Ave., Bel Aire, Kansas 67226.

CITY OF BEL AIRE, KANSAS
December 31, 2011
(Unaudited)

Condensed Financial Information

Government-Wide
Assets, Liabilities and Net Assets

| | December 31, 2011 | | | |
|---|------------------------------------|-----------------------------------|--------------|----------------------|
| Assets | Governmental Activities | Proprietary Activities | Total | Memo 2010 |
| Cash | \$7,015,001 | \$518,730 | \$7,533,731 | \$8,608,908 |
| Receivables | 14,342,738 | 210,464 | 14,553,202 | 11,597,588 |
| Capital assets, net | 49,439,137 | 962,296 | 60,401,433 | 60,837,803 |
| Other assets | 944,805 | -- | 944,805 | 956,528 |
| PBC restricted cash | 85,265 | -- | 85,265 | 744,463 |
| Total Assets | \$71,826,946 | \$11,691,490 | \$83,518,436 | \$82,745,290 |
| Liabilities | | | | |
| Payables and accruals | \$70,394 | \$77,481 | \$147,875 | \$185,250 |
| Deferred revenue | 13,717,171 | -- | 13,717,171 | 10,250,862 |
| Long-term debt | 54,181,356 | -- | 54,181,356 | 56,985,978 |
| Total Liabilities | \$67,968,921 | \$77,481 | \$68,046,402 | \$67,422,090 |
| Net Assets | | | | |
| Invested in capital assets, net of debt | (4,742,219) | 10,962,296 | 6,220,077 | 3,851,825 |
| Restricted | 4,302,383 | -- | 4,302,383 | 7,569,810 |
| Unrestricted | 4,297,861 | 651,713 | 4,949,574 | 3,901,565 |
| Total Net Assets | 3,858,025 | 11,614,009 | 15,472,034 | 15,323,200 |
| Total Liabilities and Net Assets | \$71,826,946 | \$11,691,490 | \$83,518,436 | \$82,745,290 |

CITY OF BEL AIRE, KANSAS
December 31, 2011
(Unaudited)

Condensed Financial Information

Debt

| | December 31, 2011 | | | |
|--------------------------|------------------------------------|-----------------------------------|--------------|--------------------------|
| Debt | Governmental Activities | Proprietary Activities | Total | Memo 12-31-10 |
| General obligation bonds | \$15,340,000 | \$-- | \$15,340,000 | \$16,455,000 |
| Temporary notes | 14,650,000 | -- | 14,650,000 | 16,170,000 |
| Revenue bonds - PBC | 24,060,000 | -- | 24,060,000 | 24,160,000 |
| Capital leases | 131,356 | -- | 131,356 | 200,978 |
| Total Debt | \$54,181,356 | \$-- | \$54,181,356 | \$56,985,978 |

Revenues – Governmental Activities
2011

| | Program | General | Total | Memo 2010 |
|----------------------------|----------------|----------------|--------------|----------------------|
| Fees, permits, rents, etc. | \$178,163 | \$-- | \$178,163 | \$253,834 |
| Land project (deficit) | -- | 848,462 | 848,462 | (2,321,237) |
| Fines | 254,566 | -- | 254,566 | 280,198 |
| Operating grants | 20,336 | -- | 20,336 | -- |
| Taxes and shared revenue | -- | 3,148,665 | 3,148,665 | 3,134,966 |
| Special assessments | -- | 1,209,318 | 1,209,318 | 1,334,154 |
| Reimbursements and other | -- | 31,978 | 31,978 | (306,696) |
| Franchise fees | -- | 479,886 | 479,886 | 489,892 |
| PBC | 325,334 | -- | 325,334 | 302,847 |
| Total | \$778,399 | \$5,718,309 | \$6,496,708 | \$3,167,958 |

CITY OF BEL AIRE, KANSAS
December 31, 2011
(Unaudited)

Condensed Financial Information

Program Expenses, Including Depreciation – Governmental Activities

| <u>Program</u> | <u>2011</u> | <u>Memo 2010</u> |
|---|--------------------|-----------------------------|
| Administration | \$415,191 | \$399,904 |
| Community development/infrastructure | 663,166 | 672,310 |
| Recreation, pool, parks and grounds and senior center | 474,155 | 483,720 |
| Law and municipal court | 141,818 | 155,159 |
| Employee benefits | 533,438 | 528,454 |
| Police | 808,142 | 899,083 |
| PBC | 112,527 | 107,397 |
| Interest and debt fees | 2,060,067 | 851,953 |
| Nondepartmental | 132,677 | 659,922 |
| Streets | 262,278 | 269,529 |
| Land Project | 590,663 | -- |
| Total | <u>\$6,194,122</u> | <u>\$5,027,431</u> |

CITY OF BEL AIRE, KANSAS
December 31, 2011
(Unaudited)

Condensed Financial Information

Revenues – Proprietary Activities

| | 2011 | | | Memo |
|-----------------------|------------------|------------------|--------------|-------------|
| <u>Utility</u> | Operating | Other | Total | 2010 |
| | Revenues | Increases | | |
| Water | \$1,668,796 | \$10,061 | \$1,678,857 | \$1,616,726 |
| Sewer | 1,425,663 | -- | 1,425,663 | 1,365,366 |
| Total | \$3,094,459 | \$10,061 | \$3,104,520 | \$2,982,092 |

Expenses – Proprietary Activities

| | 2011 | | | Memo |
|-------|------------------------|---------------------|--------------|-------------|
| | Nondepreciation | Depreciation | Total | 2010 |
| Water | \$1,566,662 | \$191,124 | \$1,757,786 | \$1,729,956 |
| Sewer | 1,345,359 | 155,727 | 1,501,086 | 1,509,407 |
| Total | \$2,912,021 | \$346,851 | \$3,258,872 | \$3,239,363 |

CITY OF BEL AIRE, KANSAS
December 31, 2011
(Unaudited)

Condensed Financial Information

Total Revenues Government – Wide

| | 2011 | Memo 2010 |
|-------------------------|---------------------------|---------------------------|
| Governmental: | | |
| Program | \$778,399 | \$836,879 |
| General | <u>5,718,309</u> | <u>5,071,618</u> |
| Total Governmental | <u>6,496,708</u> | <u>5,908,497</u> |
| Proprietary: | | |
| Water and sewer charges | 3,094,459 | 2,964,808 |
| Other increases | <u>--</u> | <u>10,061</u> |
| Total Proprietary | <u>3,094,459</u> | <u>2,974,869</u> |
| Total | <u><u>\$9,591,167</u></u> | <u><u>\$8,883,366</u></u> |

Total Expenses Government – Wide

| | 2010 | 2009 |
|--------------|---------------------------|---------------------------|
| Governmental | <u>\$6,194,122</u> | <u>\$5,027,431</u> |
| Proprietary | <u>3,258,872</u> | <u>3,239,636</u> |
| Total | <u><u>\$9,452,994</u></u> | <u><u>\$8,266,794</u></u> |

BASIC FINANCIAL STATEMENTS

CITY OF BEL AIRE, KANSAS
Government-wide Statement of Net Assets
December 31, 2011

| | <u>Assets</u> | | | | <u>Liabilities and Net Assets</u> | | |
|---------------------------------------|----------------------|----------------------|----------------------|---|-----------------------------------|----------------------|----------------------|
| | <u>Governmental</u> | <u>Proprietary</u> | <u>Total</u> | | <u>Governmental</u> | <u>Proprietary</u> | <u>Total</u> |
| Assets: | | | | Liabilities: | | | |
| Cash | \$ 7,015,001 | \$ 518,730 | \$ 7,533,731 | Accounts payable and accruals | \$ 70,394 | \$ 77,481 | \$ 147,875 |
| Receivables and specials | 14,342,738 | 210,464 | 14,553,202 | Deferred revenue and specials | 13,717,171 | - | 13,717,171 |
| Unamortized debt issuance costs - PBC | 944,805 | - | 944,805 | Bonds, notes and capital leases: | | | |
| Restricted debt service funds | 85,265 | - | 85,265 | Due in 2011: | | | |
| Capital assets: | | | | Bonds and notes | 6,140,000 | - | 6,140,000 |
| Nondepreciable: | | | | Capital leases | 38,442 | - | 38,442 |
| Land | 4,277,547 | 534,040 | 4,811,587 | Total 2011 maturities | <u>6,178,442</u> | <u>-</u> | <u>6,178,442</u> |
| Land project | 21,461,520 | - | 21,461,520 | Due after 2011: | | | |
| Construction in progress | 3,650,391 | - | 3,650,391 | Bonds and notes | 47,910,000 | - | 47,910,000 |
| Less amounts due from others | <u>(2,176,674)</u> | <u>-</u> | <u>(2,176,674)</u> | Capital leases | 92,914 | - | 92,914 |
| Total construction in progress | 1,473,717 | - | 1,473,717 | Total bonds, notes and capital leases | <u>54,181,356</u> | <u>-</u> | <u>54,181,356</u> |
| Total nondepreciable | <u>27,212,784</u> | <u>534,040</u> | <u>27,746,824</u> | Total liabilities | 67,968,921 | 77,481 | 68,046,402 |
| Depreciable: | | | | Net Assets: | | | |
| Plant and equipment | - | 14,853,076 | 14,853,076 | Invested in capital assets, net of debt | (4,742,219) | 10,962,296 | 6,220,077 |
| Infrastructure | 25,646,969 | - | 25,646,969 | Restricted: | | | |
| Equipment, buildings and improvement | 7,221,041 | - | 7,221,041 | Debt service | 6,396 | - | 6,396 |
| | <u>32,868,010</u> | <u>14,853,076</u> | <u>47,721,086</u> | Drug forfeiture | 4,616 | - | 4,616 |
| Accumulated depreciation | <u>(10,641,657)</u> | <u>(4,424,820)</u> | <u>(15,066,477)</u> | Capital projects | 4,291,371 | - | 4,291,371 |
| Total depreciable | <u>22,226,353</u> | <u>10,428,256</u> | <u>32,654,609</u> | Total restricted | <u>4,302,383</u> | <u>-</u> | <u>4,302,383</u> |
| Total capital assets | <u>49,439,137</u> | <u>10,962,296</u> | <u>60,401,433</u> | Unrestricted | 4,297,861 | 651,713 | 4,949,574 |
| | | | | Total net assets | <u>3,858,025</u> | <u>11,614,009</u> | <u>15,472,034</u> |
| Total assets | <u>\$ 71,826,946</u> | <u>\$ 11,691,490</u> | <u>\$ 83,518,436</u> | Total liabilities and net assets | <u>\$ 71,826,946</u> | <u>\$ 11,691,490</u> | <u>\$ 83,518,436</u> |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Government-wide Statement of Activities
For the Year Ended December 31, 2011

| Functions/Program | Expenses | | | Program Revenues | | | Net Revenue (Expense) and Changes in Net Assets | | |
|--|-------------------------|---------------------|---------------------|----------------------|------------------|---------------------|---|------------------------|-----------------------|
| | Other than Depreciation | Depreciation | Total | Charges for Services | Operating Grants | Total | Governmental Activities | Proprietary Activities | Total |
| Governmental activities: | | | | | | | | | |
| Administration, mayor and council | \$ 393,413 | \$ 21,778 | \$ 415,191 | \$ 82,286 | \$ 20,336 | \$ 102,622 | \$ (312,569) | \$ - | \$ (312,569) |
| Community development | 85,015 | 578,151 | 663,166 | - | - | - | (663,166) | - | (663,166) |
| Law and municipal court | 140,234 | 1,584 | 141,818 | 254,566 | - | 254,566 | 112,748 | - | 112,748 |
| Parks, grounds, recreation, pool, etc. | 421,659 | 52,496 | 474,155 | 95,877 | - | 95,877 | (378,278) | - | (378,278) |
| Police | 755,294 | 52,848 | 808,142 | - | - | - | (808,142) | - | (808,142) |
| Streets | 243,478 | 19,250 | 262,728 | - | - | - | (262,728) | - | (262,728) |
| Nondepartmental and other | 132,227 | - | 132,227 | - | - | - | (132,227) | - | (132,227) |
| Employee benefits | 533,438 | - | 533,438 | - | - | - | (533,438) | - | (533,438) |
| Land project taxes /specials | 590,663 | - | 590,663 | - | - | - | (590,663) | - | (590,663) |
| Interest and debt fees/expenses | 2,060,067 | - | 2,060,067 | - | - | - | (2,060,067) | - | (2,060,067) |
| PBC | 9,880 | 102,647 | 112,527 | 325,334 | - | 325,334 | 212,807 | - | 212,807 |
| Total governmental activities | 5,365,368 | 828,754 | 6,194,122 | 758,063 | 20,336 | 778,399 | (5,415,723) | - | (5,415,723) |
| Proprietary activities: | | | | | | | | | |
| Water | 1,566,662 | 191,124 | 1,757,786 | 1,668,796 | - | 1,668,796 | - | (88,990) | (88,990) |
| Sewer | 1,345,359 | 155,727 | 1,501,086 | 1,425,663 | - | 1,425,663 | - | (75,423) | (75,423) |
| Total proprietary activities | 2,912,021 | 346,851 | 3,258,872 | 3,094,459 | - | 3,094,459 | - | (164,413) | (164,413) |
| Total | \$ 8,277,389 | \$ 1,175,605 | \$ 9,452,994 | \$ 3,852,522 | \$ 20,336 | \$ 3,872,858 | \$ (5,415,723) | \$ (164,413) | \$ (5,580,136) |
| Net revenues (expenses), above | | | | | | | \$ (5,415,723) | \$ (164,413) | \$ (5,580,136) |
| General revenues, transfers, etc.: | | | | | | | | | |
| Taxes and shared revenue | | | | | | | 3,148,665 | - | 3,148,665 |
| Special assessments | | | | | | | 1,209,318 | - | 1,209,318 |
| Franchise fees, etc. | | | | | | | 479,886 | - | 479,886 |
| Capital asset contributions | | | | | | | (137,875) | 137,875 | - |
| Land project sales | | | | | | | 848,462 | - | 848,462 |
| Other | | | | | | | 31,978 | 10,661 | 42,639 |
| Total general revenues, transfers, etc. | | | | | | | 5,580,434 | 148,536 | 5,728,970 |
| Change in net assets | | | | | | | 164,711 | (15,877) | 148,834 |
| Net assets - beginning | | | | | | | 3,693,314 | 11,629,886 | 15,323,200 |
| Net assets - ending | | | | | | | \$ 3,858,025 | \$ 11,614,009 | \$ 15,472,034 |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Balance Sheet - Governmental Funds
December 31, 2011

| | Major Funds | | | | | | | Total | Reconciliation to Government-Wide Statement of Net Assets | |
|--|----------------------------|-------------------------------|--------------------------|----------------------------|----------------------------|-------------------------------|--------------------------|-----------------------------|--|---------------------|
| | General | Special Street and Highway | Employee Benefits | Bond and Interest | Capital Projects | Public Building Commission | Nonmajor Funds | | | |
| <u>Assets</u> | | | | | | | | | | |
| Cash | \$ 1,241,658 | \$ 267,944 | \$ 322,214 | \$ 6,131 | \$ 4,336,901 | \$ 563,955 | \$ 276,198 | \$ 7,015,001 | Total fund balance, this statement | \$ 7,655,439 |
| Receivables: | | | | | | | | | Add (deduct): | |
| Ad valorem tax | 1,626,857 | - | 453,317 | - | - | - | - | 2,080,174 | Capital assets | 49,439,137 |
| Special assessments | - | - | - | 9,415,462 | - | - | - | 9,415,462 | Bonds, notes and leases payable | (54,181,356) |
| Motor vehicle and RV tax | 3,979 | - | 2,336 | - | - | - | - | 6,315 | Unamortized debt issuance costs | 944,805 |
| State fuel tax | - | 44,361 | - | - | - | - | - | 44,361 | | |
| Real estate mortgage | 399,132 | - | - | - | - | - | - | 399,132 | Total net assets, governmental | <u>\$ 3,858,025</u> |
| Sales tax and intergovernmental | 169,363 | - | - | - | - | - | - | 169,363 | | |
| Franchise taxes and fees | 50,757 | - | - | - | - | - | - | 50,757 | | |
| CCUA headworks project | - | - | - | - | 1,376,402 | - | - | 1,376,402 | | |
| USD 259 high school project | - | - | - | - | 800,772 | - | - | 800,772 | | |
| Total receivables | <u>2,250,088</u> | <u>44,361</u> | <u>455,653</u> | <u>9,415,462</u> | <u>2,177,174</u> | <u>-</u> | <u>-</u> | <u>14,342,738</u> | | |
| Restricted debt service funds | - | - | - | - | - | 85,265 | - | 85,265 | | |
| Total assets | <u>\$ 3,491,746</u> | <u>\$ 312,305</u> | <u>\$ 777,867</u> | <u>\$ 9,421,593</u> | <u>\$ 6,514,075</u> | <u>\$ 649,220</u> | <u>\$ 276,198</u> | <u>\$ 21,443,004</u> | | |
| <u>Liabilities and Fund Balances</u> | | | | | | | | | | |
| Liabilities: | | | | | | | | | | |
| Accounts payable and accruals | \$ 18,107 | \$ 234 | \$ 6,523 | \$ - | \$ 45,530 | \$ - | \$ - | \$ 70,394 | | |
| Deferred revenues | 1,626,857 | 44,361 | 453,317 | 9,415,462 | 2,177,174 | - | - | 13,717,171 | | |
| Total liabilities | <u>1,644,964</u> | <u>44,595</u> | <u>459,840</u> | <u>9,415,462</u> | <u>2,222,704</u> | <u>-</u> | <u>-</u> | <u>13,787,565</u> | | |
| Fund Balances: | | | | | | | | | | |
| Restricted: | | | | | | | | | | |
| Capital projects | - | - | - | - | 4,291,371 | - | - | 4,291,371 | | |
| Debt service | - | - | - | 6,131 | - | - | - | 6,131 | | |
| Public building commission | - | - | - | - | - | 85,265 | - | 85,265 | | |
| Drug forfeiture | - | - | - | - | - | - | 4,616 | 4,616 | | |
| Total restricted | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,131</u> | <u>4,291,371</u> | <u>85,265</u> | <u>4,616</u> | <u>4,387,383</u> | | |
| Assigned | - | 267,710 | 318,027 | - | - | 563,955 | 271,582 | 1,421,274 | | |
| Unassigned | 1,846,782 | - | - | - | - | - | - | 1,846,782 | | |
| Total fund balances | <u>1,846,782</u> | <u>267,710</u> | <u>318,027</u> | <u>6,131</u> | <u>4,291,371</u> | <u>649,220</u> | <u>276,198</u> | <u>7,655,439</u> | | |
| Total liabilities and fund balances | <u>\$ 3,491,746</u> | <u>\$ 312,305</u> | <u>\$ 777,867</u> | <u>\$ 9,421,593</u> | <u>\$ 6,514,075</u> | <u>\$ 649,220</u> | <u>\$ 276,198</u> | <u>\$ 21,443,004</u> | | |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended December 31, 2011

| | Major Funds | | | | | | | Total | Reconciliation to Government-Wide Statement of Activities | |
|--|---------------------|-------------------------------|----------------------|----------------------|---------------------|-------------------------------|-------------------|---------------------|--|-------------|
| | General | Special Street and Highway | Employee Benefits | Bond and Interest | Capital Projects | Public Building Commission | Nonmajor Funds | | | |
| Revenues: | | | | | | | | | | |
| Taxes and shared revenues | \$ 2,258,163 | \$ 259,039 | \$ 628,104 | \$ 3,359 | \$ - | \$ - | \$ - | \$ 3,148,665 | Net change in fund balances, this statement | |
| Franchise fees | 433,939 | - | - | - | - | - | - | 433,939 | \$ (2,388,618) | |
| Court fines | 254,566 | - | - | - | - | - | - | 254,566 | Add (deduct): | |
| Licenses, permits and fees | 178,163 | - | - | - | - | - | - | 178,163 | Capital asset acquisitions | 3,612,083 |
| Rents and sales | 45,947 | - | - | - | - | 325,334 | - | 371,281 | New debt | (4,345,000) |
| Special assessments | - | - | - | 1,209,318 | - | - | - | 1,209,318 | Retired debt | 4,115,000 |
| Land sales | 848,462 | - | - | - | - | - | - | 848,462 | Depreciation | (828,754) |
| Other | 52,314 | - | - | - | 40,481 | - | 2,719 | 95,514 | Total additions (deductions) | 2,553,329 |
| Total revenues | <u>4,071,554</u> | <u>259,039</u> | <u>628,104</u> | <u>1,212,677</u> | <u>40,481</u> | <u>325,334</u> | <u>2,719</u> | <u>6,539,908</u> | Change in net assets - governmental activities | |
| Expenditures: | | | | | | | | | | |
| Current: | | | | | | | | | | |
| Administration, mayor and council | 393,413 | - | - | - | - | - | - | 393,413 | | |
| Community development | 85,015 | - | - | - | - | - | - | 85,015 | | |
| Law and municipal court | 140,234 | - | - | - | - | - | - | 140,234 | | |
| Parks, grounds, recreation, pool, etc. | 421,659 | - | - | - | - | - | - | 421,659 | | |
| Police | 755,294 | - | - | - | - | - | 420 | 755,714 | | |
| Streets and highway | - | 243,478 | - | - | - | - | - | 243,478 | | |
| Nondepartmental and other | 129,347 | - | - | - | 60,207 | 9,880 | - | 199,434 | | |
| Employee benefits | - | - | 533,438 | - | - | - | - | 533,438 | | |
| Land project | 590,663 | - | - | - | - | - | - | 590,663 | | |
| Capital outlay /projects | - | - | - | - | 3,339,726 | - | 48,121 | 3,387,847 | | |
| Debt service: | - | - | - | - | - | - | - | - | | |
| Principal/defeasance | 60,000 | - | - | 1,055,000 | - | 100,000 | - | 1,215,000 | | |
| Interest and fees | 127,745 | - | - | 563,449 | 518,225 | 1,480,188 | - | 2,689,607 | | |
| Total expenditures | <u>2,703,370</u> | <u>243,478</u> | <u>533,438</u> | <u>1,618,449</u> | <u>3,918,158</u> | <u>1,590,068</u> | <u>48,541</u> | <u>10,655,502</u> | | |
| Excess (deficiency) | 1,368,184 | 15,561 | 94,666 | (405,772) | (3,877,677) | (1,264,734) | (45,822) | (4,115,594) | | |
| Other financing sources (uses): | | | | | | | | | | |
| Transfers | (1,060,024) | (8,700) | - | 342,229 | (31,625) | 1,010,024 | 30,072 | 281,976 | | |
| Bonds or notes issued | - | - | - | - | 4,345,000 | - | - | 4,345,000 | | |
| Notes paid | - | - | - | - | (2,900,000) | - | - | (2,900,000) | | |
| Total other financing sources (uses) | <u>(1,060,024)</u> | <u>(8,700)</u> | <u>-</u> | <u>342,229</u> | <u>1,413,375</u> | <u>1,010,024</u> | <u>30,072</u> | <u>1,726,976</u> | | |
| Net change in fund balances | 308,160 | 6,861 | 94,666 | (63,543) | (2,464,302) | (254,710) | (15,750) | (2,388,618) | | |
| Fund balances, beginning, | 1,538,622 | 260,849 | 223,361 | 69,674 | 6,755,673 | 903,930 | 291,948 * | 10,044,057 | | |
| Fund balances, ending | <u>\$ 1,846,782</u> | <u>\$ 267,710</u> | <u>\$ 318,027</u> | <u>\$ 6,131</u> | <u>\$ 4,291,371</u> | <u>\$ 649,220</u> | <u>\$ 276,198</u> | <u>\$ 7,655,439</u> | | |

* - as adjusted for addition of drug forfeiture funds in the amount of \$2,317.

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For the Year Ended December 31, 2011

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|----------------------------|------------------|------------------|---|
| Cash Receipts: | | | |
| Taxes and Shared Revenue: | | | |
| Ad valorem property tax | \$ 1,178,589 | \$ 1,176,482 | \$ (2,107) |
| Delinquent tax | 10,000 | 11,013 | 1,013 |
| Motor vehicle tax | 160,207 | 179,947 | 19,740 |
| Sales tax | 800,000 | 890,721 | 90,721 |
| Franchise fees | 419,500 | 433,939 | 14,439 |
| Court fines | 225,000 | 254,566 | 29,566 |
| Licenses, permits and fees | 106,450 | 82,286 | (24,164) |
| Recreation fees | 88,000 | 95,877 | 7,877 |
| Rents and note collections | - | 45,947 | 45,947 |
| Federal aid, grants | 24,500 | 20,336 | (4,164) |
| Interest | 45,000 | 1,894 | (43,106) |
| Other | 137,450 | 30,084 | (107,366) |
| Land project sales | 825,000 | 848,462 | 23,462 |
| Total Cash Receipts | <u>4,019,696</u> | <u>4,071,554</u> | <u>51,858</u> |
| Expenditures: | | | |
| City Administration: | | | |
| Personnel services | 165,000 | 152,557 | 12,443 |
| Contractual services | 232,820 | 202,075 | 30,745 |
| Operating expenses | 29,500 | 16,654 | 12,846 |
| Capital outlay | - | 145 | (145) |
| Community Development: | | | |
| Personnel services | 40,700 | 40,406 | 294 |
| Contractual services | 24,550 | 32,679 | (8,129) |
| Operating expenses | 8,650 | 5,201 | 3,449 |
| Capital outlay | 6,750 | 6,729 | 21 |
| Law and Municipal Court: | | | |
| Personnel services | 56,700 | 54,097 | 2,603 |
| Contractual services | 89,683 | 82,179 | 7,504 |
| Operating expenses | 4,050 | 3,958 | 92 |

CITY OF BEL AIRE, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For the Year Ended December 31, 2011

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|---------------------------|---------------|---------------|---|
| Expenditures (continued): | | | |
| Parks and Grounds: | | | |
| Personnel services | 109,000 | 109,484 | (484) |
| Contractual services | 29,573 | 19,636 | 9,937 |
| Operating expenses | 36,540 | 34,614 | 1,926 |
| Capital outlay | 29,600 | 10,867 | 18,733 |
| Police: | | | |
| Personnel services | 600,000 | 533,043 | 66,957 |
| Contractual services | 80,571 | 90,559 | (9,988) |
| Operating expenses | 119,940 | 93,402 | 26,538 |
| Capital outlay | 65,000 | 38,290 | 26,710 |
| Recreation: | | | |
| Personnel services | 140,000 | 122,856 | 17,144 |
| Contractual services | 38,000 | 37,783 | 217 |
| Operating expenses | 34,950 | 22,009 | 12,941 |
| Capital outlay | 7,300 | - | 7,300 |
| Senior Center: | | | |
| Personnel services | 16,500 | 14,637 | 1,863 |
| Contractual services | 5,400 | 3,269 | 2,131 |
| Operating expenses | 6,300 | 3,655 | 2,645 |
| Mayor and Council: | | | |
| Personnel services | 10,000 | 10,200 | (200) |
| Contractual services | 1,000 | 1,170 | (170) |
| Operating expenses | 12,900 | 10,612 | 2,288 |
| Central Park Pool: | | | |
| Personnel services | 20,000 | 18,467 | 1,533 |
| Contractual services | 17,750 | 13,225 | 4,525 |
| Operating expenses | 5,700 | 3,744 | 1,956 |
| Economic Development: | | | |
| Contractual services | 23,800 | 2,233 | 21,567 |
| Operating expenses | 11,350 | 5,180 | 6,170 |

CITY OF BEL AIRE, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
General Fund
For the Year Ended December 31, 2011

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|------------------|---------------------|--|
| Nondepartmental: | | | |
| Operating expenses | 398,750 | 120,349 | 278,401 |
| Contractual services | 419,791 | 9,094 | 410,697 |
| Capital outlay | 5,000 | 2,784 | 2,216 |
| Principal and interest 2009A bonds | - | 187,745 | (187,745) |
| Land project | 685,767 | 590,663 | 95,104 |
| Transfer to Bond and Interest Fund | - | 50,000 | (50,000) |
| Transfer to Capital Improvements Fund | 972,227 | - | 972,227 |
| Transfer to Public Building Commission | - | 1,010,024 | (1,010,024) |
| Total Expenditures | <u>4,561,112</u> | <u>3,766,274</u> | <u>794,838</u> |
| Receipts over (under) expenditures | (541,416) | 305,280 | 846,696 |
| Unencumbered cash, beginning | <u>541,416</u> | <u>949,619</u> | <u>408,203</u> |
| Unencumbered cash, ending | <u>\$ -</u> | <u>\$ 1,254,899</u> | <u>\$ 1,254,899</u> |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Employee Benefits Fund
For the Year Ended December 31, 2011

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|------------------------------------|----------------|-------------------|---|
| Cash Receipts: | | | |
| Taxes and Shared Revenue: | | | |
| Ad valorem property tax | \$ 525,795 | \$ 525,114 | \$ (681) |
| Delinquent tax | 750 | 5,763 | 5,013 |
| Motor vehicle tax | 87,498 | 96,684 | 9,186 |
| Interest | 200 | - | (200) |
| Total Cash Receipts | <u>614,243</u> | <u>627,561</u> | <u>13,318</u> |
| Expenditures: | | | |
| FICA/Medicare | 610,459 | 114,537 | 495,922 |
| Unemployment | - | 22,640 | (22,640) |
| Worker's compensation | - | 53,695 | (53,695) |
| KPERS and death and disability | - | 103,890 | (103,890) |
| Retirement plan | - | 5,209 | (5,209) |
| Health and life insurance | - | 233,077 | (233,077) |
| Operating reserve | 60,000 | - | 60,000 |
| Other | 400 | 390 | 10 |
| Total Expenditures | <u>670,859</u> | <u>533,438</u> | <u>137,421</u> |
| Receipts Over (Under) Expenditures | (56,616) | 94,123 | 150,739 |
| Unencumbered Cash, Beginning | <u>56,616</u> | <u>221,571</u> | <u>164,955</u> |
| Unencumbered Cash, Ending | <u>\$ -</u> | <u>\$ 315,694</u> | <u>\$ 315,694</u> |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Special Street and Highway Fund
For the Year Ended December 31, 2011

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
|------------------------------------|------------------|-------------------|---|
| Cash Receipts: | | | |
| Taxes and Shared Revenue: | | | |
| County gas tax | \$ 87,080 | \$ 81,040 | \$ (6,040) |
| State gas tax | 185,330 | 177,999 | (7,331) |
| Interest | <u>1,200</u> | <u>-</u> | <u>(1,200)</u> |
| Total Cash Receipts | 273,610 | 259,039 | (14,571) |
| Expenditures: | | | |
| Personnel services | 83,450 | 61,686 | 21,764 |
| Contractual services | 51,200 | 45,999 | 5,201 |
| Operating expense | 100,000 | 63,451 | 36,549 |
| Capital outlay | 132,731 | 72,342 | 60,389 |
| Transfer to Bond and Interest Fund | <u>8,700</u> | <u>8,700</u> | <u>-</u> |
| Total Expenditures | <u>376,081</u> | <u>252,178</u> | <u>123,903</u> |
| Receipts over (under) expenditures | (102,471) | 6,861 | 109,332 |
| Unencumbered cash, beginning | <u>138,602</u> | <u>260,849</u> | <u>122,247</u> |
| Unencumbered cash, ending | <u>\$ 36,131</u> | <u>\$ 267,710</u> | <u>\$ 231,579</u> |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Cash Receipts and Expenditures - Actual and Budget
Bond and Interest Fund
For the Year Ended December 31, 2011

| | <u>Budget</u> | <u>Actual</u> | Variance Favorable (Unfavorable) |
|--|------------------|------------------|--|
| Cash Receipts: | | | |
| Special assessments | \$ 1,400,000 | \$ 1,209,318 | \$ (190,682) |
| Delinquent tax | - | 3,359 | 3,359 |
| Transfer from: | | | |
| Water Utility Fund, operating transfer | 289,528 | 120,000 | (169,528) |
| Sewer Utility Fund, operating transfer | - | 161,976 | 161,976 |
| General Fund | - | 50,000 | 50,000 |
| Special Streets and Highway Fund | - | 8,700 | 8,700 |
| Capital Projects Fund | - | 1,553 | 1,553 |
| Total Cash Receipts | <u>1,689,528</u> | <u>1,554,906</u> | <u>(134,622)</u> |
| Expenditures: | | | |
| Principal payments | 1,148,115 | 1,055,000 | 93,115 |
| Interest expense | 567,370 | 563,446 | 3,924 |
| Other debt expenses | - | 1 | (1) |
| Total Expenditures | <u>1,715,485</u> | <u>1,618,447</u> | <u>97,038</u> |
| Receipts over (under) expenditures | (25,957) | (63,541) | (37,584) |
| Unencumbered cash, beginning | <u>107,996</u> | <u>69,672</u> | <u>(38,324)</u> |
| Unencumbered cash, ending | <u>\$ 82,039</u> | <u>\$ 6,131</u> | <u>\$ (75,908)</u> |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Capital Projects Fund
For the Year Ended December 31, 2011

| | Actual |
|--------------------------------------|--------------|
| Cash Receipts: | |
| Temporary note 2011 | \$ 1,380,000 |
| GO bonds 2011 | 2,965,000 |
| Bond sale premium, net | 39,091 |
| Interest | 1,390 |
| Total Cash Receipts | 4,385,481 |
| Expenditures: | |
| Central Park 3rd, phase 2 | 22,606 |
| High school | 1,103,463 |
| CCUA headworks | 864,048 |
| Rock Spring | 105,099 |
| TV South | 732,155 |
| Temporary note principal | 2,900,000 |
| Temporary note interest | 518,225 |
| Fees | 60,207 |
| Transfer to Capital Improvement Fund | 30,072 |
| Transfer to General Fund | 1,553 |
| Total Expenditures | 6,337,428 |
| Receipts Over (Under) Expenditures | (1,951,947) |
| Unencumbered Cash, Beginning | 6,243,318 |
| Unencumbered Cash, Ending | \$ 4,291,371 |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Cash Receipts and Expenditures - Actual
Public Building Commission
For the Year Ended December 31, 2011

| | Actual |
|---|------------|
| Cash Receipts: | |
| Rents | \$ 246,977 |
| Farm rents | 20,723 |
| Effluent sales | 57,634 |
| Transfer from General Fund (interest 2010A) | 1,010,024 |
| Total Cash Receipts | 1,335,358 |
| Expenditures: | |
| Project costs | 9,880 |
| Bond principal | 100,000 |
| Bond interest - other bonds | 220,654 |
| Bond interest - 2010A | 1,259,534 |
| Total Expenditures | 1,590,068 |
| Receipts Over (Under) Expenditures | (254,710) |
| Unencumbered Cash, Beginning | 903,930 |
| Unencumbered Cash, Ending | \$ 649,220 |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Net Assets - Proprietary Funds
December 31, 2011

| <u>Assets</u> | Water | Sewer | Total |
|-----------------------------------|--------------|--------------|---------------|
| Current assets: | | | |
| Cash | \$ 169,424 | \$ 349,306 | \$ 518,730 |
| Accounts receivable | 112,489 | 97,975 | 210,464 |
| Total current assets | 281,913 | 447,281 | 729,194 |
| Capital assets: | | | |
| Plant and equipment | 8,062,738 | 6,790,338 | 14,853,076 |
| Accumulated depreciation | (2,521,932) | (1,902,888) | (4,424,820) |
| Total plant and equipment | 5,540,806 | 4,887,450 | 10,428,256 |
| Land, non-depreciable | 234,040 | 300,000 | 534,040 |
| Total capital assets | 5,774,846 | 5,187,450 | 10,962,296 |
| Total assets | \$ 6,056,759 | \$ 5,634,731 | \$ 11,691,490 |
| <u>Liabilities and Net Assets</u> | | | |
| Liabilities: | | | |
| Accounts payable | \$ 50,126 | \$ - | \$ 50,126 |
| Accrued compensation | 16,528 | 10,827 | 27,355 |
| Total liabilities | 66,654 | 10,827 | 77,481 |
| Net Assets: | | | |
| Invested in capital assets | 5,774,846 | 5,187,450 | 10,962,296 |
| Unrestricted | 215,259 | 436,454 | 651,713 |
| Total net assets | 5,990,105 | 5,623,904 | 11,614,009 |
| Total liabilities and net assets | \$ 6,056,759 | \$ 5,634,731 | \$ 11,691,490 |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Funds
For the Year Ended December 31, 2011

| | Water | Sewer | Total |
|--|--------------|--------------|---------------|
| Operating revenues: | | | |
| Charges for services, etc. | \$ 1,668,796 | \$ 1,425,663 | \$ 3,094,459 |
| Operating expenses: | | | |
| Personnel | 232,911 | 193,597 | 426,508 |
| Contractual services | 19,881 | 16,809 | 36,690 |
| Water purchases | 273,427 | - | 273,427 |
| Operations and maintenance - CCUA | 296,071 | 264,588 | 560,659 |
| Debt service - CCUA | 543,413 | 543,413 | 1,086,826 |
| Franchise fees | 45,833 | 45,833 | 91,666 |
| Other operating expenses | 35,126 | 119,143 | 154,269 |
| Depreciation | 191,124 | 155,727 | 346,851 |
| Operating transfers | 120,000 | 161,976 | 281,976 |
| Total operating expenses | 1,757,786 | 1,501,086 | 3,258,872 |
| Income (loss) from operations | (88,990) | (75,423) | (164,413) |
| Nonoperating revenues and (expenses): | | | |
| Interest and other | 10,661 | - | 10,661 |
| Net change before governmental contribution: | (78,329) | (75,423) | (153,752) |
| Capital assets contributed by governmental funds | - | 137,875 | 137,875 |
| Change in net assets | (78,329) | 62,452 | (15,877) |
| Net assets, beginning | 6,068,434 | 5,561,452 | 11,629,886 |
| Net assets, ending | \$ 5,990,105 | \$ 5,623,904 | \$ 11,614,009 |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Statement of Cash Flows - Proprietary Funds
For the Year Ended December 31, 2011

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> |
|--|--------------------------|--------------------------|--------------------------|
| Cash flows - operating activities: | | | |
| Customers | \$ 1,704,398 | \$ 1,393,572 | \$ 3,097,970 |
| Other revenue | 10,661 | - | 10,661 |
| Payments to employees | (266,509) | (182,770) | (449,279) |
| Water purchases | (273,427) | - | (273,427) |
| CCUA operations | (296,071) | (264,588) | (560,659) |
| CCUA debt service operating expense | (543,413) | (543,413) | (1,086,826) |
| Contractual and other | (19,881) | (16,809) | (36,690) |
| Franchise fees | (45,833) | (45,833) | (91,666) |
| Operating expenses | (40,166) | (113,045) | (153,211) |
| Operating transfers | (120,000) | (161,976) | (281,976) |
| Net cash provided by operating activities | <u>109,759</u> | <u>65,138</u> | <u>174,897</u> |
| Cash flows - capital and related financing activities: | | | |
| Capital outlay | <u>(13,567)</u> | <u>(1,466)</u> | <u>(15,033)</u> |
| Net increase (decrease) in cash | 96,192 | 63,672 | 159,864 |
| Cash, beginning | <u>73,232</u> | <u>285,634</u> | <u>358,866</u> |
| Cash, ending | <u><u>\$ 169,424</u></u> | <u><u>\$ 349,306</u></u> | <u><u>\$ 518,730</u></u> |

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies

This summary of significant accounting policies of the City of Bel Aire, Kansas (the City) is presented to assist in understanding the City's financial statements. The financial statements and notes are representations of the City's management, who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles applied on a consistent basis.

Reporting Entity

The City of Bel Aire, Kansas is incorporated under the laws of the State of Kansas. The City adopted a Council-Manager form of City government in January 2010, consisting of an elected Mayor and council and an appointed City Manager to oversee the daily operations. The City provides services to the citizens in the areas of highways and streets, water service, wastewater treatment, community development, public safety, planning and zoning, recreation, public works and general administrative services.

Blended Component Unit. The statements include the financial data of the Public Building Commission (PBC). The PBC was formed several years ago in order to finance and build the 1) City Hall, 2) the swimming pool and 3) an effluent line for the sale of "gray water" to Willowbend. The PBC issued debt instruments (revenue bonds) to finance the projects and leases the City Hall and swimming pool to the City. All revenues from City Hall rents, gray water sales and pool operations are pledged for debt service on the respective PBC revenue bonds. In 2010, the PBC issued additional revenue bonds in the amount of \$19,315,000 in order to defease/refund the land project COP's in the amount of \$19,830,000. Bonded indebtedness of the PBC is reflected below:

| <u>Project</u> | PBC Revenue Bonds | | |
|----------------------------------|---|---|---------------------------|
| | Original Amount of Bonds | Bonds outstanding 12-31-11 | Final Maturity |
| City Hall, land and improvements | \$ 400,000 | \$ 130,000 | 2-1-13 |
| Swimming pool renovations | 790,000 | 740,000 | 2-1-36 |
| Effluent line | 600,000 | 505,000 | 2-1-34 |
| Refunding revenue bonds | 3,460,000 | 3,370,000 | 2-1-36 |
| Project Site (land project) | <u>19,315,000</u> | <u>19,315,000</u> | 5-1-36 |
| Total | <u>\$24,565,000</u> | <u>\$24,060,000</u> | |

Although the PBC is a legally separate organization, the City is financially accountable for the component unit in accordance with GASB standards. The PBC's governing body is substantially the same as the governing body of the City; therefore the PBC is "blended" with the City's financial statements. Blending means that the component unit is so closely related to the primary government that it is, in effect, the same as the primary government. In this case the data for the component unit's funds are combined with the data for the corresponding funds of the primary government.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements

The accounts of the City are organized and operated on the basis of funds and account groups, each of which is defined as a fiscal accounting entity with a self-balancing set of accounts established for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restriction or limitations. In accordance with state statutes and City requirements, several different types of funds are used to record the City's financial transactions.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all activities of the City, the primary government and the blended component unit, as a whole. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from proprietary activities, which rely to a significant extent on fees and charges for support. These statements distinguish between activities that are governmental and those that are considered proprietary activities. Major individual governmental funds and the proprietary funds are reported as separate columns in the fund financial statements.

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are generally considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. A 60-day availability period is used for revenue recognition for all governmental fund revenues. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenses related to compensated absences, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, interest associated with the current fiscal period and certain state and federal grants are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City. While property taxes receivable are shown on the balance sheet as current assets of the City, they are not recognized as revenue at year-end because statutory provisions prohibit their use until the year for which they were raised and budgeted. Instead, they are offset by deferred revenue accounts.

Amounts reported as program revenues, including licenses and permits, certain charges for services and miscellaneous revenues, are recorded as revenue when received in cash since they are generally not measurable until actually received.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer funds are charges to customers for sales and services. Operating expenses include the cost of sales and service, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Revenue Recognition

In applying the susceptible-to-accrual concept under the modified accrual basis, revenue sources are deemed both measurable and available (i.e., collectible within the current year or within 60 days of year-end and available to pay obligations of the current period). This includes investment earnings, franchise fees and state-levied locally shared taxes (including motor vehicle fees). Reimbursements due for federally funded projects, if any, are accrued as revenue at the time the expenditures are made, or deferred when received in advance.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt are recognized when paid. Allocations of costs such as depreciation and amortization are not recognized in the individual governmental funds.

Property Taxes

In accordance with governing state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are levied on November 1 of each year, due and payable November 30, delinquent after December 20, and the following September become a lien on the property. The County Treasurer is the tax collection agent for all taxing entities within Sedgwick County.

Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20 during the year levied with any balance to be paid on or before May 10 of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1 of the ensuing year, consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At November 1 such taxes are due and recorded as taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred revenue on the balance sheets of the appropriate funds. This amount is also reported as unearned revenue on the Statement of Net Assets.

Kansas statutes require projects financed in part by special assessments to be paid in installments which must be financed through the issuance of general obligation bonds or temporary notes which are secured by the full faith and credit of the City. Special assessments paid prior to the issuance of general obligation bonds are recorded as revenue in the appropriate capital project. Special assessments received after the issuance of general obligation bonds are recorded as revenue in the Bond and Interest Fund. Further, Kansas statutes require levying additional general ad valorem property taxes in the City's Bond and Interest Fund to finance the delinquent special assessments receivable. Special assessments are levied over a 15 to 20 year period, and annual installments are due and payable with annual ad valorem taxes. The City may foreclose liens against property benefited by special assessments when delinquent assessments are two years in arrears.

Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on deposit with banks and amounts invested in the Municipal Investment Pool.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Receivables

Other receivables at December 31, 2011 consist of property tax, shared revenues, a note receivable from sale of the previous City Hall, accounts due for user services, special assessments, accrued interest and franchise taxes.

Concentrations of Credit Risk

Credit is extended to citizens for special assessments levied by the City for capital improvements. These special assessments are secured by liens on the related properties. Unsecured credit is extended to customers for water fees, sewer fees and charges for services.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

As mentioned later, certain capital assets have been valued using reasonable estimates when true historical cost values were not available.

Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the government-wide statement of net assets. Capital assets used by proprietary funds are reported in both the proprietary activities column of the government-wide statement of net assets and in the individual proprietary funds. Retroactive capitalization has been used and all infrastructure has been included.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Capital assets in the proprietary funds are accounted for in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

The City follows the policy of capitalizing assets with unit costs of \$2,500 or more. Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 40 years; improvements/infrastructure, 20 to 40 years; equipment, 5 to 10 years; water system, 35 to 40 years; sewer system, 40 years.

Certain capital assets have been valued using reasonable estimates when true historical cost values were not available.

There were no capital assets that were idle at the end of the year.

Accrued Compensated Absences

The City accrues unused portions of vacation pay in the period the fund liability is incurred. The liability is based on the sick leave accumulated at year-end by those employees who are currently eligible to receive termination payments as well as other employees who are expected to become eligible to receive such payments. Even though the City has appropriated, accumulated and earmarked expendable available fund resources for these amounts, the portion not normally expected to be liquidated with expendable available financial resources is not reported as a fund liability in accordance with Interpretation No. 6 of the Governmental Accounting Standards Board.

Fund Balance

In the fund financial statements, governmental funds report fund balance in the following classifications: non-spendable, restricted, committed, assigned and unassigned. Non-spendable fund balance includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. Restricted fund balance indicates that constraints have been placed on the use of resources either by being externally imposed by creditors, grantors, contributors, laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Committed fund balances include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the city council. Assigned fund balances include amounts that are constrained by the City management's intent to be used for specific purposes, but are neither restricted nor committed. Unassigned fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, restricted amounts are considered to be spent first. When an expenditure is incurred for purposes that are committed, assigned, or unassigned fund balance is available, the following is the order in which resources will be expended: committed, assigned and unassigned.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

1. Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

The following is the detail for fund balance classification in the financial statements:

| | Major Governmental Funds | | | | | | | Total Gov't Funds |
|----------------------|--------------------------|--------------------------|----------------------|--------------------|---------------------|----------------------------|-------------------------|-------------------------|
| | General | Special St. & Highway | Employee Benefits | Bond & Interest | Capital Projects | Public Building Comm | Other Gov't Funds | |
| Fund Balances | | | | | | | | |
| Restricted for: | | | | | | | | |
| Capital projects | \$ - | \$ - | \$ - | \$ - | \$ 4,291,371 | \$ - | \$ - | \$ 4,291,371 |
| Debt service | - | - | - | 6,131 | - | - | - | 6,131 |
| Public building comm | - | - | - | - | - | 85,265 | - | 85,265 |
| Drug forfeiture | - | - | - | - | - | - | 4,616 | 4,616 |
| Assigned | - | 267,710 | 318,027 | - | - | 563,955 | 271,582 | 1,421,274 |
| Unassigned | 1,846,782 | - | - | - | - | - | - | 1,846,782 |
| Total Fund Balances | <u>\$ 1,846,782</u> | <u>\$ 267,710</u> | <u>\$ 318,027</u> | <u>\$ 6,131</u> | <u>\$ 4,291,371</u> | <u>\$ 649,220</u> | <u>\$ 276,198</u> | <u>\$ 7,655,439</u> |

Land Project

The land project consists of approximately 1,600 acres of land (600 acres residential, 200 acres commercial and 800 acres industrial park) and is being accounted for by using a hybrid cost recovery method. This method of accounting is allowed under FASB Standard No. 67.

Capitalized costs of the land project include but are not limited to:

- Land acquisition and title costs
- Capitalized interest and debt issuance costs
- Street, sewers, grading, excavating, improvements and infrastructure
- Other development costs

Under the hybrid cost recovery method, as parcels of land are sold, the proceeds are offset against the total accumulated costs of the project. Other methods of matching costs, such as the specific identification method, the gross profit method and the unit/area method were not practical in the circumstances.

Management deems that the current estimated fair value of the project is in excess of the remaining unrecovered costs. Unrecovered costs at December 31, 2011, amounted to \$21,461,520.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

Subsequent Events

Subsequent events have been evaluated through October 8, 2012, which is the date the financial statements were available to be issued. Events requiring disclosure were identified and disclosed.

2. Compliance and Accountability

Budget Requirements, Accounting and Reporting

Kansas statutes require an annual operating budget be legally adopted for the general fund, special revenue funds (unless exempted by a specific statute), debt service funds and proprietary funds. All budgets are prepared utilizing the modified accrual basis further modified by the encumbrance method of accounting – that is, commitments evidenced by documents such as purchase orders and contracts, in addition to disbursements and accounts payable, are recorded as expenditures.

The statutes provide for the following sequence and timetable in adoption of budgets:

- a. Preparation of budget for the succeeding calendar year on or before August 1.
- b. Publication of proposed budget on or before August 5 of the proposed budget and notice of public hearing on the budget.
- c. Public hearing on or before August 15, but at least ten days after public notice of hearing.
- d. Adoption of final budget on or before August 25 of each year.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the statutory basis of accounting in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment such as a purchase order or contract. Any unused budget authority lapses at year-end. A legal operating budget is not required for capital project funds, fiduciary funds (if any) and certain special revenue funds. Spending in funds which are not subject to the legal annual operation budget requirement is controlled by federal regulations, other statutes or internal spending limits established by the governing body.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

3. Restatement of Equity

The implementation of GASB 54 required the reclassification of the governmental fund balances. The following is the reclassification of fund balances as of December 31, 2010:

| Fund Balance classification as of December 31, 2010 | | | |
|--|---------------------|---------------------|----------------------|
| | <u>Unrestricted</u> | <u>Restricted</u> | <u>Total</u> |
| Governmental Fund: | | | |
| General fund | \$ 1,538,622 | \$ - | \$ 1,538,622 |
| Special street and highway | 260,849 | - | 260,849 |
| Employee benefits | 223,361 | - | 223,361 |
| Bond and Interest | - | 69,674 | 69,674 |
| Capital projects | - | 6,755,673 | 6,755,673 |
| Public building commission | 159,467 | 744,463 | 903,930 |
| Other governmental funds | 289,361 | - | 289,361 |
| Total Governmental Funds | \$ 2,471,660 | \$ 7,569,810 | \$ 10,041,470 |

| Fund Balance classification as of December 31, 2010 (reclassified) | | | | |
|---|---------------------|-------------------|---------------------|----------------------|
| | <u>Restricted</u> | <u>Assigned</u> | <u>Unassigned</u> | <u>Total</u> |
| Governmental Fund: | | | | |
| General fund | \$ - | \$ - | \$ 1,538,622 | \$ 1,538,622 |
| Special street and highway | - | 260,849 | - | 260,849 |
| Employee benefits | - | 223,361 | - | 223,361 |
| Bond and Interest | 69,674 | - | - | 69,674 |
| Capital projects | 6,755,673 | - | - | 6,755,673 |
| Public building commission | 744,463 | 159,467 | - | 903,930 |
| Other governmental funds | - | 289,361 | - | 289,361 |
| Total Governmental Funds | \$ 7,569,810 | \$ 933,038 | \$ 1,538,622 | \$ 10,041,470 |

4. Deposits and Investments

Deposits

At year-end, the carrying amounts of the City's deposits were \$7,533,731 and the depository balances totaled \$4,131,951. The difference between the carrying amount and the depository balances are outstanding checks, deposits in transit and the amount invested in the State's municipal investment pool. Of the depository balances, \$500,000 was covered by federal deposit insurance and \$3,631,951 was collateralized by pledged securities held under joint custody receipts issued by third-party banks in the City's name. The third-party banks holding the pledged securities are independent of the pledging banks. The pledged securities are held under a tri-party custodial agreement signed by all three parties: the City, the pledging banks and the independent third-party banks holding the pledged securities.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

4. Deposits and Investments (continued)

Investments

At December 31, 2011, the City had \$4,104,277 invested in the State's municipal investment pool. The municipal investment pool is under the oversight of the Pooled Money Investment Board. The board is comprised of the State Treasurer and four additional members appointed by the State Governor. The board reports annually to the Kansas legislature. State pooled monies may be invested in direct obligations of, or obligations that insured as to principal and interest, by the U.S. government or any agency thereof, with maturities up to four years. No more than ten percent of those funds may be invested in mortgage-backed securities. In addition, the State pool may invest in repurchase agreements with Kansas banks or with primary government securities dealers. These amounts are included in the carrying amounts of the City's deposits.

5. Capital Assets and Depreciation

Capital assets owned by the City are summarized below. A substantial portion of the values were based on reasonable estimates of historical cost when true historical costs were not available.

Governmental Activities

| | <u>12-31-11</u> | <u>12-31-10</u> |
|----------------------------------|----------------------|----------------------|
| Nondepreciable: | | |
| Land and improvements: | | |
| Land project | \$21,461,520* | \$ 20,807,334* |
| Parks, recreation, etc. | 3,421,063 | 3,421,063 |
| City Hall | 437,974 | 437,974 |
| Other | <u>418,510</u> | <u>418,510</u> |
| Total land and land improvements | 25,739,067 | 25,084,881 |
| Construction in progress, net | <u>1,473,717</u> | <u>1,750,918</u> |
| Total nondepreciable | 27,212,784 | 26,835,799 |
| Depreciable: | | |
| Infrastructure | 25,646,969 | 25,895,540 |
| City Hall | 2,982,358 | 2,982,358 |
| Swimming pool | 854,756 | 854,756 |
| Other structures and equipment | <u>3,383,927</u> | <u>2,951,608</u> |
| | 32,868,010 | 32,684,262 |
| Accumulated depreciation | <u>(10,641,657)</u> | <u>(9,838,497)</u> |
| Total depreciable | <u>22,226,353</u> | <u>22,845,765</u> |
| Total capital assets | <u>\$ 49,439,137</u> | <u>\$ 49,681,564</u> |

*The land included in the land project is held primarily for sale by the City and is more fully described in Note 1.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

5. Capital Assets and Depreciation (continued)

Depreciation was charged to the following governmental functions:

| | <u>2011</u> | <u>2010</u> |
|--|-------------------|-------------------|
| Administration | \$ 21,778 | \$ 18,624 |
| Police/law and municipal court | 54,432 | 80,295 |
| PBC | 102,647 | 102,647 |
| Community development/infrastructure/streets | 597,401 | 600,152 |
| Parks and recreation | <u>52,496</u> | <u>51,453</u> |
| Total | <u>\$ 828,754</u> | <u>\$ 853,171</u> |

Proprietary Activities

2011

| | <u>Water</u> | <u>Sewer</u> | <u>Total</u> | <u>2010</u> |
|--------------------------|---------------------|---------------------|----------------------|----------------------|
| Nondepreciable: | | | | |
| Land and improvements | \$ 234,040 | \$ 300,000 | \$ 534,040 | \$ 534,040 |
| Depreciable: | | | | |
| Plant and equipment | 8,062,738 | 6,790,338 | 14,853,076 | 14,700,168 |
| Accumulated depreciation | <u>(2,521,932)</u> | <u>(1,902,888)</u> | <u>(4,424,820)</u> | <u>(4,077,969)</u> |
| Total depreciable | <u>5,540,806</u> | <u>4,887,450</u> | <u>10,428,256</u> | <u>10,622,199</u> |
| Total capital assets | <u>\$ 5,774,846</u> | <u>\$ 5,187,450</u> | <u>\$ 10,962,296</u> | <u>\$ 11,156,239</u> |
| Depreciation expense | <u>\$ 191,124</u> | <u>\$ 155,727</u> | <u>\$ 346,851</u> | <u>\$ 336,198</u> |

6. Pensions

Plan Description

The City of Bel Aire participates in the Kansas Public Employees Retirement System (KPERS), a cost-sharing, multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. Those reports may be obtained by writing to KPERS (611 S Kansas, Suite 100; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy

K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% (tier 1) and 6% (tier 2) of covered salary. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. State law sets a limitation on annual increases in the contribution rates for KPERS employers. The employer rate established by statutes for 1/01/11 to 12/31/11 was 7.74%. The City of Bel Aire employer contributions to KPERS for the years ending December 31, 2011, 2010, and 2009 were \$93,150, \$88,604 and \$78,333 respectively, equal to the required contributions for each year.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

7. Other Employee Benefits

Compensated Absences

The City's policy regarding vacation permits employees with one to five years continuous service to earn ten days vacation pay and for more than five years continuous service to earn fifteen days vacation pay. Earned vacation pay in excess of five days must be taken prior to the employee's next earning date (January 1 of the following year) or be forfeited. The sick leave policy of the City provides that all regular employees shall earn one day of sick leave for each calendar month of service. The maximum accumulation of sick leave is 210 days. After five years of continuous service with the City, an employee shall receive compensation for any unused accumulated sick leave up to a maximum of fifty days when permanently separated from service by reason of death or retirement. All other accumulated sick leave is canceled upon termination of employment. The estimated liability at December 31, 2011, if all employees with accumulated vacation and sick leave were to terminate employment would be \$58,711.

8. Contingencies

In the ordinary course of business the City may be subjected to loss contingencies arising from lawsuits. Management believes the outcome of such matters, if any, will not have a material impact on the City's financial position or results of future operations.

9. Risk Management

The City is exposed to various risks of loss from torts: theft, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The City manages and finances its risks primarily through the purchase of commercial insurance.

10. Long-Term Debt Summary

Principal and interest payments due in future periods are reflected in the accompanying schedule of long-term debt maturities. Debt service payments are primarily made by the Bond and Interest Fund and the Public Building Commission. Temporary notes are generally paid from the Capital Projects Fund after bonds are issued.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

10. Long-Term Debt Summary (continued)

Long-term debt is summarized below:

| | 2011 | | |
|---------------------------------|---------------------|-----------------------|---------------------|
| | Balance 1-01-11 | Net Changes | Balance 12-31-11 |
| General obligation bonds | \$16,455,000 | \$(1,115,000) | \$15,340,000 |
| Temporary notes | 16,170,000 | (1,520,000) | 14,650,000 |
| Revenue bonds – PBC | 24,160,000 | (100,000) | 24,060,000 |
| Capital leases | 200,978 | (69,622) | 131,356 |
| Accrued vacation and sick leave | 88,419 | (29,708) | 58,711 |
| Total | <u>\$57,074,397</u> | <u>\$ (2,834,330)</u> | <u>\$54,240,067</u> |

| | 2010 | | |
|---------------------------------|---------------------|--------------------|---------------------|
| | Balance 1-01-10 | Net Changes | Balance 12-31-10 |
| General obligation bonds | \$14,565,000 | \$1,890,000 | \$16,455,000 |
| Temporary notes | 14,900,000 | 1,270,000 | 16,170,000 |
| Certificates of Participation | 19,830,000 | (19,830,000) | -- |
| Revenue bonds – PBC | 4,935,000 | 19,225,000 | 24,160,000 |
| Capital leases | 307,180 | (106,202) | 200,978 |
| Accrued vacation and sick leave | 187,586 | (99,167) | 88,419 |
| Total | <u>\$54,724,766</u> | <u>\$2,349,631</u> | <u>\$57,074,397</u> |

11. Summary of Expenditures, Actual and Budget

Actual expenditures (statutory method) compared to published budgeted expenditures for 2011 are summarized below:

| Fund | Budget | Actual | Variance Favorable (Unfavorable) |
|----------------------------|-------------|-------------|--|
| General | \$4,561,112 | \$3,766,274 | \$794,838 |
| Employee Benefit | 670,859 | 533,438 | 137,421 |
| Special Street and Highway | 376,081 | 252,178 | 123,903 |
| Bond and Interest | 1,715,485 | 1,618,447 | 97,038 |
| Water Utility | 1,712,400 | 1,668,993 | 43,407 |
| Sewer Utility | 1,608,200 | 1,329,900 | 278,300 |

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

12. Compliance with Kansas Statutes

The City was in violation of K.S.A. 9-1402 regarding depository securities for public funds, with bank deposits of City funds being under secured for various dates throughout the year.

Management is not aware of any other statutory violations for the year ended December 31, 2011.

13. Tax Levy

The amount of tax levied for 2012 and 2011 is reflected below:

| <u>Fund</u> | <u>2012</u> | | <u>2011</u> | |
|-------------------|------------------|----------------------------|------------------|----------------------------|
| | <u>Mill Levy</u> | <u>Tax Amount Assessed</u> | <u>Mill Levy</u> | <u>Tax Amount Assessed</u> |
| General | 35.889 | \$ 1,626,857 | 26.948 | \$ 1,213,947 |
| Employee Benefits | 10.000 | 453,317 | 12.022 | 541,569 |
| Total | <u>45.889</u> | <u>\$2,080,174</u> | <u>38.970</u> | <u>\$1,755,516</u> |

14. Budgetary Data – Proprietary Funds

As described in Note 1, the actual data presented in the budgetary comparison statements differ from data presented in accordance with generally accepted accounting principles (GAAP) for the proprietary fund types. Kansas statutes require that fixed budgets be legally adopted for all proprietary funds unless exempted by a specific statute. Proprietary fund budgets are prepared utilizing the modified accrual basis of accounting. Actual operations compared to budgeted operations for the proprietary funds are as follows:

| | <u>Combined Proprietary Funds 2011</u> | | |
|------------------------------------|--|-------------------|---|
| | <u>Budget</u> | <u>Actual</u> | <u>Variance Favorable (Unfavorable)</u> |
| Revenues: | | | |
| Sales of services | \$ 3,172,550 | \$ 3,097,970 | \$ (74,580) |
| Other | <u>30,000</u> | <u>10,661</u> | <u>(19,339)</u> |
| Total revenues | 3,202,550 | 3,108,631 | (93,919) |
| Expenditures: | | | |
| Personnel services | 490,000 | 449,279 | 40,721 |
| Contractual services | 2,289,300 | 2,049,268 | 240,032 |
| Commodities, operating, etc. | 159,400 | 136,365 | 23,035 |
| Capital outlay | 100,000 | 82,005 | 17,995 |
| Transfers out | <u>281,900</u> | <u>281,976</u> | <u>(76)</u> |
| Total expenditures | <u>3,320,600</u> | <u>2,998,893</u> | <u>321,707</u> |
| Revenues over (under) expenditures | <u>\$ (118,050)</u> | <u>\$ 109,738</u> | <u>\$ 227,788</u> |

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

15. Budgetary Data – Proprietary Funds (continued)

The following comparative reconciliation is presented to provide a correlation between the different basis of accounting for reporting in accordance with generally accepted accounting principles (GAAP) and for reporting on the budget basis for proprietary funds:

| | | |
|--|-----------------------|------------------------|
| | <u>2011</u> | <u>2010</u> |
| Change in net assets– GAAP basis | \$ (15,877) | \$ 162,031 |
| Adjustments/reconciling items: | | |
| Accruals, etc. | (1,356) | 38,136 |
| Capital asset contributions received | (137,875) | (419,302) |
| Depreciation | 346,851 | 336,198 |
| Capital assets purchased | <u>(82,005)</u> | <u>(139,369)</u> |
| Total adjustments/reconciling items | <u>125,615</u> | <u>(184,337)</u> |
| Revenues over (under) expenditures, budget | <u>\$ 109,738</u> | <u>\$ (22,306)</u> |

16. Commitments – Public Building Commission

The City has entered into capital lease agreements with the PBC for leases of the City Hall, swimming pool and the land project. Lease payments are to be in amounts adequate to pay the PBC’s principal and interest maturities on its bonds payable. Future payments due from the City are reflected below.

| <u>Year</u> | <u>Swimming Pool</u> | <u>City Hall</u> | <u>Land Project</u> | <u>Total</u> |
|----------------|--------------------------|----------------------|-------------------------|---------------------|
| 2012 | \$ 62,055 | \$ 224,020 | \$1,259,572 | \$1,545,647 |
| 2013 | 61,515 | 220,531 | 1,259,572 | 1,541,618 |
| 2014 | 60,965 | 220,731 | 1,259,572 | 1,541,268 |
| 2015 | 60,268 | 222,450 | 1,259,572 | 1,542,290 |
| 2016 | 59,240 | 261,006 | 1,259,572 | 1,579,818 |
| 2017 thru 2037 | <u>1,208,966</u> | <u>4,527,509</u> | <u>36,728,226</u> | <u>42,464,701</u> |
| Total | <u>\$1,513,009</u> | <u>\$ 5,676,247</u> | <u>\$ 43,026,086</u> | <u>\$50,215,342</u> |

The PBC is a blended component unit of the City and the above lease payments are not reflected as payables or receivables. Future debt service payments of the PBC are reflected on the schedule of maturities of long-term debt.

17. Chisholm Creek Utility Authority

The Chisholm Creek Utility Authority is a Quasi-Municipal Governmental Entity formed in the year 2001 in accordance with Kansas Statutes 12-2901 through 2909, referred to as the Kansas Interlocal Cooperation Act. It was formed through the joint action of the Cities of Park City and Bel Aire, Kansas, for the purpose of providing “wholesale” water, wastewater and utility services to the Cities.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

17. Chisholm Creek Utility Authority (continued)

Planning and engineering proceeded in cooperation with the cities during that year and on March 20, 2002, the Authority closed on \$28,980,000 in revenue bonds allowing the construction of the planned water and wastewater facilities. In general, the initial 20 months were a period of acquisition of funds and construction; partial operations occurred in the wastewater function since the Authority purchased Park City's wastewater plant in a completely operational status. Full operation began in January 2003, in both the water and wastewater projects in addition to providing trash services to the citizens of Bel Aire; however, the trash service operation was sold to an unrelated entity in December 2004.

The Authority's purpose is to serve the two cities and the function of the cities is to insure that the expenses of the Authority related to the water and wastewater operations of the project constructed by the revenue bonds are paid. "Expenses" paid to the authority include debt service and operating expense. The cities forming the Authority have planned that the Authority shall not create surplus cash balances from the use of city funds.

The Authority does not meet GASB requirements to be reported as a component unit in Bel Aire's financial statements; however, it is a related organization under the joint control of the two organizing cities. Neither city is "financially accountable" for the Authority and there is no "ongoing financial interest" or "ongoing financial responsibility."

As required by the bond covenants, the rates charged by each city to its residents and businesses should result in the funds necessary for the cities to pay for all the water and wastewater costs of the Authority in addition to all debt service payments. Current year operating results of the Authority reflected a gain in comparison with the previous year. Provisions of the revenue bond rate covenant were complied with for 2011.

At year-end, the Authority had revenue bonds, capital leases and a land contract outstanding in the principal amount of \$26,985,937. The debt is more fully described in the audited financial statements of the Chisholm Creek Utility Authority. Debt administration is handled by the Bank of New York and Security Bank of Kansas City, excluding the capital leases and land contract.

During 2009, a temporary financing agreement was approved by the City for the Authority to make certain capital improvements to the wastewater treatment facilities. The improvements were approved up to \$3,918,306, of which the City of Bel Aire is liable for \$1,322,934. The temporary financing by the City will be repaid through the issuance of revenue bonds by the Authority. The payment of the revenue bonds will be through monthly payments by the cities to the Authority from revenues in utility funds.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

17. Chisholm Creek Utility Authority (continued)

Bel Aire's scheduled share of payments due to the Authority for currently issued revenue bonds and interest are reflected fellow:

| <u>Period</u> | <u>Interest and Principal</u> |
|---------------------|-----------------------------------|
| 2012 | \$ 1,203,907 |
| 2013 | 1,198,862 |
| 2014 | 1,213,123 |
| 2015 | 1,201,472 |
| 2016 | 1,198,856 |
| 2017 and thereafter | <u>20,704,338</u> |
| Total | <u>\$ 26,720,558</u> |

The above payments will be recognized as expenses incurred for water and sewer operations. Funding is to be provided by user charges.

Audited financial statements are available for the Chisholm Creek Utility Authority at the office of the City of Park City, 6110 N. Hydraulic, Park City, Kansas 67219.

18. Operating Leases

The City is a party to several operating leases with immaterial monthly lease payments.

19. Conduit Debt

From time to time, the City has sponsored the issuance of Industrial Revenue Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership for the acquired facilities transfers to the private-sector entity served by the bond issuance. The City, State nor any political subdivision thereof is obligated in any manner for repayments of the bonds. In accordance with the Governmental Accounting Standards Board, the bonds are not reported as liabilities in the accompanying financial statements.

CITY OF BEL AIRE, KANSAS
Notes to Financial Statements
December 31, 2011

20. Construction Commitments

Significant capital projects approved and/or in progress at December 31, 2011 are reflected below:

| <u>Project</u> | <u>Project Costs to Date</u> | <u>Approved Project Amount</u> |
|-----------------------------------|--------------------------------------|--|
| CCUA wastewater treatment project | \$ 1,376,412* | \$ 1,630,000 |
| TV South, water and sewer | 413,025 | 565,000 |
| TV South, drainage | 412,054 | 1,493,000 |
| TV South, paving | 40,711 | 753,000 |
| High School, water and sewer | 203,537 | 460,860 |
| High School, road and streets | 893,742** | 536,375 |
| K-8 53 rd Street | 300,255** | 116,130 |
| Rock Spring | 105,098 | 1,372,548 |

* - Refundable from the CCUA.

* - Refundable from USD 259 in the amount of \$800,772.

21. Concentrations

The City buys all of its wastewater services from the Chisholm Creek Utility Authority. All water purchases are made from the Chisholm Creek Utility Authority and the City of Wichita.

SUPPLEMENTARY INFORMATION

CITY OF BEL AIRE, KANSAS
Schedule of Changes in Long-Term Debt
For the Year Ended December 31, 2011

| Issue | Interest Rates | Date of Issue | Amount of Issue | Date of Final Maturity | Balance Beginning of Year | Additions | Reductions/ Payments | Net Change | Balance End of Year |
|---|-----------------|---------------|-----------------|------------------------|---------------------------|--------------|----------------------|-------------|---------------------|
| General Obligation Bonds: | | | | | | | | | |
| Internal improvements - Series A 2002 | 3.50% to 6.40% | 8/26/2002 | 512,000 | 11/1/2017 | \$ 70,000 | \$ - | \$ 35,000 | \$ - | \$ 35,000 |
| Refunding - Series A 2003 | 2.00% to 3.00% | 7/1/2003 | 655,000 | 10/1/2011 | 95,000 | - | 95,000 | - | - |
| Refunding & internal improvements - Series B 2003 | 2.00% to 5.00% | 10/15/2003 | 1,710,000 | 11/1/2019 | 575,000 | - | 155,000 | - | 420,000 |
| Refunding - Series A 2004 | 3.00% to 3.50% | 10/15/2004 | 3,930,000 | 11/1/2014 | 1,350,000 | - | 345,000 | - | 1,005,000 |
| Internal improvements - Series A 2007 | 4.125% to 4.25% | 2/15/2007 | 4,595,000 | 11/1/2027 | 4,240,000 | - | 175,000 | - | 4,065,000 |
| Refunding & internal improvements - Series B 2007 | 4.25% to 4.50% | 2/15/2007 | 1,290,000 | 11/1/2027 | 1,140,000 | - | 70,000 | - | 1,070,000 |
| Internal improvements - Series C 2007 (proprietary) | 4.50% to 5.00% | 8/1/2007 | 3,555,000 | 11/1/2022 | 3,380,000 | - | 115,000 | - | 3,265,000 |
| Refunding & internal improvements - Series D 2007 | 4.125% to 4.60% | 8/1/2007 | 625,000 | 11/1/2022 | 560,000 | - | 25,000 | - | 535,000 |
| Taxable - Series A 2009 | 6.125% to 6.15% | 1/5/2009 | 2,200,000 | 11/1/2029 | 2,080,000 | - | 60,000 | - | 2,020,000 |
| Taxable - Series A 2011 | 3.50% to 4.50% | 10/1/2011 | 2,885,000 | 10/1/2031 | - | 2,885,000 | 40,000 | - | 2,845,000 |
| Taxable - Series B 2011 | 2.00% | 10/1/2011 | 80,000 | 10/1/2023 | - | 80,000 | - | - | 80,000 |
| Total General Obligation Bonds | | | | | 13,490,000 | 2,965,000 | 1,115,000 | - | 15,340,000 |
| Revenue Bonds - Public Building Commission: | | | | | | | | | |
| Revenue Bonds - Series 2003A | 4.50% to 5.10% | 9/1/2003 | 400,000 | 2/1/2036 | 190,000 | - | 60,000 | - | 130,000 |
| Revenue Bonds - Series 2003B | 3.50% to 6.60% | 9/1/2003 | 790,000 | 2/1/2036 | 750,000 | - | 10,000 | - | 740,000 |
| Revenue Bonds - Series 2004A | 3.125% to 5.5% | 3/1/2004 | 585,000 | 2/1/2034 | 525,000 | - | 20,000 | - | 505,000 |
| Refunding Revenue Bonds - Series 2006 | 3.75% to 4.25% | 12/1/2006 | 3,460,000 | 2/1/2036 | 3,380,000 | - | 10,000 | - | 3,370,000 |
| Refunding Revenue Bonds - Series 2010 | 6.03% to 6.824% | 4/15/2010 | 19,315,000 | 5/1/2035 | 19,315,000 | - | - | - | 19,315,000 |
| Total Revenue Bonds | | | | | 24,160,000 | - | 100,000 | - | 24,060,000 |
| Temporary Notes: | | | | | | | | | |
| Internal improvements - Series A 2006 | 4.00% | 2/15/2006 | 2,800,000 | 2/1/2010 | - | - | - | - | - |
| Internal improvements - Series A 2008 | 4.50% | 6/15/2008 | 4,735,000 | 6/1/2012 | 4,735,000 | - | - | - | 4,735,000 |
| Internal improvements - Series A 2009 | 5.00% | 12/1/2008 | 955,000 | 6/1/2009 | 955,000 | - | - | - | 955,000 |
| Internal improvements - Series B 2009 | 3.00% | 10/15/2009 | 6,410,000 | 11/1/2013 | 6,410,000 | - | - | - | 6,410,000 |
| Internal improvements - Series A 2010 | 2.50% | 2/1/2010 | 2,900,000 | 2/1/2011 | 2,900,000 | - | 2,900,000 | - | - |
| Internal improvements - Series B 2010 | 1.00% | 10/1/2010 | 1,170,000 | 10/1/2013 | 1,170,000 | - | - | - | 1,170,000 |
| Internal improvements - Series C 2011 | .85% | 8/15/2011 | 1,380,000 | 8/1/2014 | - | 1,380,000 | - | - | 1,380,000 |
| Total Temporary Notes | | | | | 16,170,000 | 1,380,000 | 2,900,000 | - | 14,650,000 |
| Capital Leases: | | | | | | | | | |
| 2009 Silverado Ext Cab 4X4 | 4.65% | 5/1/2009 | 19,300 | 5/1/2012 | 6,429 | - | 6,429 | - | - |
| (2) 2009 Chevrolet Tahoes | 4.65% | 2/17/2009 | 79,582 | 2/17/2012 | 26,510 | - | 26,510 | - | - |
| Pelican Street Sweeper | 4.75% | 3/3/2009 | 149,465 | 3/3/2014 | 89,548 | - | 28,478 | - | 61,070 |
| KDOT Polices Radios | 5.05% | 9/1/2009 | 93,737 | 9/1/2018 | 78,491 | - | 8,205 | - | 70,286 |
| Total Capital Leases | | | | | 200,978 | - | 69,622 | - | 131,356 |
| Total Indebtedness | | | | | \$ 54,020,978 | \$ 4,345,000 | \$ 4,184,622 | \$ - | \$ 54,181,356 |
| Compensated Absences | N/A | N/A | N/A | N/A | \$ 88,419 | \$ - | \$ - | \$ (29,708) | \$ 58,711 |

See notes to financial statements.

CITY OF BEL AIRE, KANSAS
Schedule of Maturities of Long-Term Debt
For the Year Ended December 31, 2011

| | <u>2012</u> | <u>2013</u> | <u>2014</u> | <u>2015</u> | <u>2016</u> | <u>2017-2021</u> | <u>2022-2026</u> | <u>2027-2031</u> | <u>2032-thereafter</u> | <u>Total</u> |
|--|---------------------|----------------------|---------------------|---------------------|---------------------|----------------------|----------------------|----------------------|------------------------|----------------------|
| Principal: | | | | | | | | | | |
| General obligation bonds | \$ 1,290,000 | \$ 1,360,000 | \$ 1,170,000 | \$ 855,000 | \$ 960,000 | \$ 4,680,000 | \$ 3,785,000 | \$ 1,240,000 | \$ - | \$ 15,340,000 |
| Revenue Bonds - Public Building Commission | 115,000 | 115,000 | 120,000 | 125,000 | 125,000 | 1,230,000 | 4,250,000 | 7,055,000 | 10,925,000 | 24,060,000 |
| Temporary notes | 4,735,000 | 8,535,000 | 1,380,000 | - | - | - | - | - | - | 14,650,000 |
| Capital leases | 38,442 | 40,301 | 9,513 | 9,992 | 10,497 | 22,611 | - | - | - | 131,356 |
| Total Principal | <u>6,178,442</u> | <u>10,050,301</u> | <u>2,679,513</u> | <u>989,992</u> | <u>1,095,497</u> | <u>5,932,611</u> | <u>8,035,000</u> | <u>8,295,000</u> | <u>10,925,000</u> | <u>54,181,356</u> |
| Interest: | | | | | | | | | | |
| General obligation bonds | 672,359 | 624,398 | 574,588 | 526,098 | 485,921 | 1,806,808 | 817,112 | 224,454 | - | 5,731,738 |
| Revenue Bonds - Public Building Commission | 1,476,202 | 1,471,325 | 1,465,125 | 1,460,221 | 1,454,999 | 7,128,715 | 6,179,236 | 4,327,957 | 1,317,155 | 26,280,935 |
| Temporary notes | 350,461 | 230,055 | 11,730 | - | - | - | - | - | - | 592,246 |
| Capital leases | 6,458 | 4,598 | 2,657 | 2,177 | 2,177 | 3,399 | - | - | - | 21,466 |
| Total Interest | <u>2,505,480</u> | <u>2,330,376</u> | <u>2,054,100</u> | <u>1,988,496</u> | <u>1,943,097</u> | <u>8,938,922</u> | <u>6,996,348</u> | <u>4,552,411</u> | <u>1,317,155</u> | <u>32,626,385</u> |
| Total Principal and Interest | <u>\$ 8,683,922</u> | <u>\$ 12,380,677</u> | <u>\$ 4,733,613</u> | <u>\$ 2,978,488</u> | <u>\$ 3,038,594</u> | <u>\$ 14,871,533</u> | <u>\$ 15,031,348</u> | <u>\$ 12,847,411</u> | <u>\$ 12,242,155</u> | <u>\$ 86,807,741</u> |

See notes to financial statements.