

**CITY OF FAIRWAY, KANSAS**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

# CITY OF FAIRWAY, KANSAS

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**INDEPENDENT AUDITOR'S REPORT**

The Honorable Mayor and Members  
of the City Council  
City of Fairway, Kansas

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairway, Kansas (the City), as of and for the year ended December 31, 2012 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the accompanying table of contents.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

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

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

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Fairway, Kansas as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### Required Supplementary Information

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

### Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund financial statements and schedules as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

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

*Cudney, Seard, McEneaney & Mullaney LLC*

May 7, 2013

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Fairway's (the City) financial statements provides a narrative overview and analysis of the City's financial activities for the fiscal year ended December 31, 2012. This discussion follows guidelines prescribed by the Governmental Accounting Standards Board (GASB) Statement 34, which enhances comparability between governments. The information presented here should be read in conjunction with the accompanying basic financial statements and the notes to those basic financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$11,018,461 (net position).
- The City's total net position decreased during this fiscal year by \$49,042 primarily due to depreciation on capital assets.
- At the close of 2012, the City's governmental funds reported combined ending fund balances of \$1,507,613, an increase of \$147,006 over the prior year. This was primarily due to lower than anticipated expenditures and higher than anticipated sales tax collections in the General Fund.
- At the close of 2012, the available fund balance for the General Fund was \$914,063, an increase of \$102,206 over the prior year. This includes \$248,834 in reserve from the sale of City owned property located at 5516 Mission Road in 2010 and an additional transfer from the General Fund in 2012 bringing the balance of the General Fund reserve at the end of 2012 to \$373,042.
- The City's total general obligation (GO) debt decreased by \$435,000 during 2012 due to repayment of outstanding debt.

### OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements, which include three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### 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. These statements use the accrual basis of accounting, which means that the current year's revenues and expenses are recorded as they are earned or incurred, regardless of when cash is received or paid.

The *Statement of Net Position* presents information on all of the City's assets and liabilities, with the difference between the two reported as net position. These statements include infrastructure assets as well as all known liabilities, including long-term debt. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The *Statement of Activities* provides information detailing *how* the City's net position changed during 2012.

## **Fund Financial Statements**

A fund is a fiscal entity with a set of self-balancing accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to demonstrate compliance with legal requirements, such as state statutes or bond covenants. There are three types of funds: governmental, proprietary, and fiduciary. All of the City's funds are classified as governmental funds. Fund accounting focuses on 1) cash flow and how financial assets can readily be converted to available resources, and 2) the balances left at the end of the fiscal year for future spending. The focus is on the budgetary, short-term financial picture of the reported operations rather than on the longer term economic picture of the City as a whole.

Governmental funds are reported using the *modified accrual* basis of accounting, which measures cash and other financial assets that can readily be converted to cash. Under this basis of accounting, revenues are recognized when they become measurable and available, and expenditures are generally recognized when the related fund liability is incurred. Such information may be useful in determining what financial resources are available in the near future to finance the City's programs.

Therefore, both the government-wide and fund financial statements present different useful aspects of the City's financial picture. They are designed to be compared and interpreted together. The reconciliations at the end of the fund financial statements detail the relationship and differences between the two types of financial statements.

## **Notes to the Basic Financial Statements**

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

## **Other Supplementary Information**

Required budgetary data related to the General Fund, combining statements for non-major governmental funds and fund budgetary schedules are presented immediately following the notes to the basic financial statements.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

<b>Condensed Statement of Net Position</b>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
Current and other assets	\$ 3,205,302	\$ 3,281,867
Capital assets	17,352,117	17,910,482
Total assets	<u>20,557,419</u>	<u>21,192,349</u>
Long-term liabilities	7,936,336	8,254,546
Other liabilities	1,602,622	1,870,300
Total liabilities	<u>9,538,958</u>	<u>10,124,846</u>
Net position:		
Net investment in capital assets	9,600,351	9,835,430
Restricted	301,215	394,238
Unrestricted	1,116,895	837,835
Total net position	<u>\$ 11,018,461</u>	<u>\$ 11,067,503</u>

## Analysis of Net Position

As previously mentioned, net position may serve as a useful indicator of a government's financial position. The City's assets exceeded liabilities by \$11,018,461 at the close of 2012.

The largest portion of the City's net position reflects its investment of \$9,600,351 in capital assets (e.g. land, buildings, equipment and infrastructure) less any related outstanding debt used to acquire those assets. These assets are used on an ongoing basis to provide services to citizens, and are thus not available for future spending. The City's investment in its capital assets is reported net of related debt; however, the resources needed to repay this debt must come from other sources. The capital assets themselves cannot be liquidated to satisfy these liabilities.

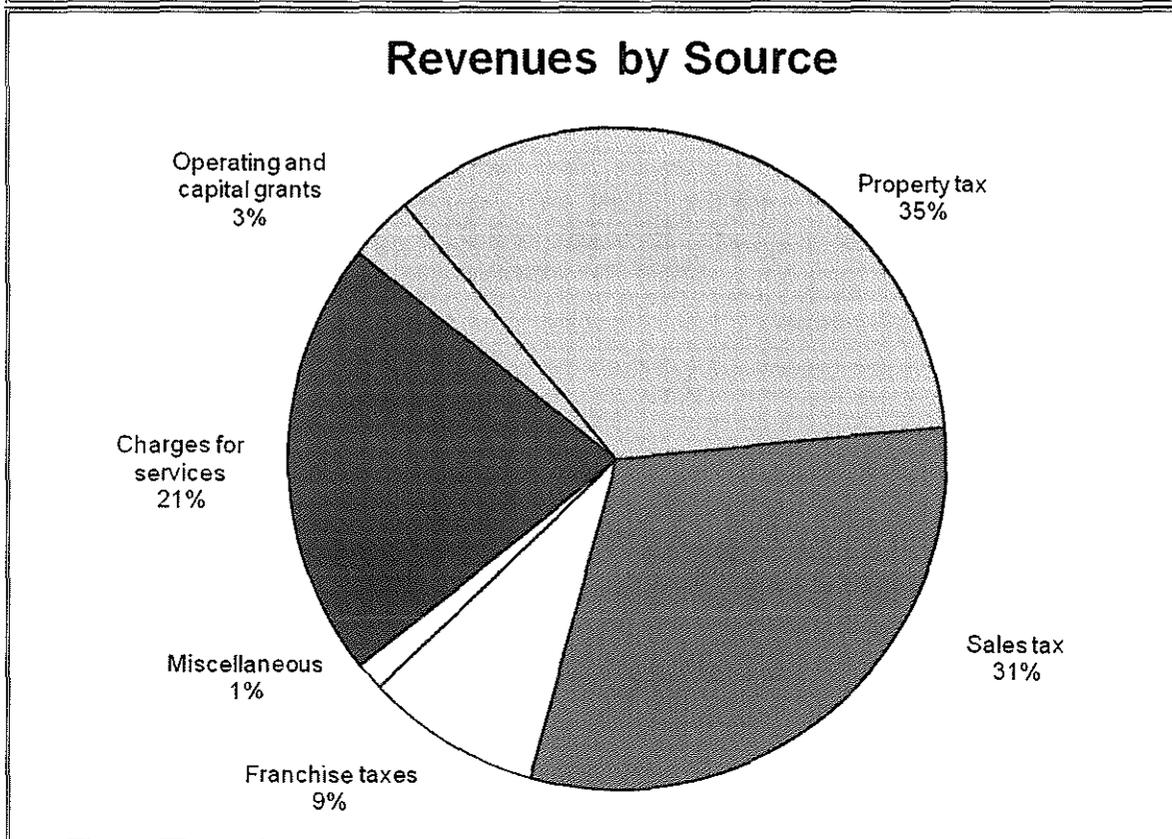
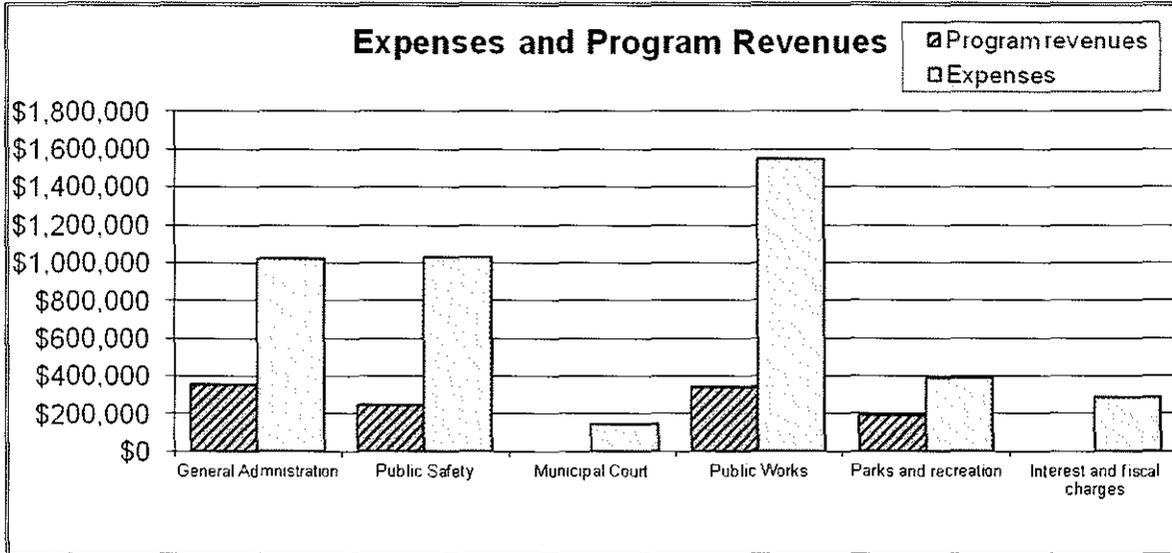
An additional \$301,215 of the City's net position represents resources that are subject to external restrictions on how they may be used. Restricted net position includes amounts from the Debt Service Fund, Capital Projects Fund and other special revenue funds.

	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
Revenues:		
Program revenues:		
Charges for services	\$ 917,433	\$ 885,354
Operating grants and contributions	136,428	115,298
Capital grants and contributions	104,000	49,479
General revenues:		
Property taxes	1,478,341	1,461,863
Sales taxes	1,319,233	1,266,987
Franchise taxes	367,265	386,526
Miscellaneous	58,606	59,183
Total revenues	<u>4,381,306</u>	<u>4,224,690</u>
Expenses:		
General administration	1,024,678	1,050,003
Public safety	1,028,619	950,401
Municipal court	147,192	157,505
Public works	1,549,795	1,554,157
Parks and recreation	392,766	347,723
Interest & fiscal charges	287,298	307,129
Total expenses	<u>4,430,348</u>	<u>4,366,918</u>
Change in net position	(49,042)	(142,228)
Net position - beginning of year	11,067,503	11,209,731
Net position - end of year	<u>\$ 11,018,461</u>	<u>\$ 11,067,503</u>

**Analysis of Changes in Net Position**

The City's net position decreased during the fiscal year by a total of \$49,042 including these changes:

- The majority of the decrease in net position is reflected in the net investment in capital assets component due to depreciation on capital assets exceeding the current year's additions by \$562,861. This decrease is partially off-set by the reduction of long term debt.
- Unrestricted net position increased by \$279,060 primarily due to lower than anticipated expenditures and a general increase in most all revenue categories.



The charts on the previous page illustrate Fairway's governmental expenses and program revenues by function, and revenues by source. Public works represents the largest portion of 2012 expenses as the depreciation on infrastructure capital assets is allocated to this function. This is followed by public safety and general administration. Operating grants and contributions for 2012 were largely due to state and county revenues received on street projects. Other revenues and expense functions fall within anticipated ranges.

For governmental activities overall, property taxes are the largest source of revenue (35%) followed closely by sales tax (31%).

## **ANALYSIS OF THE FUND FINANCIAL STATEMENTS**

The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

At the end of 2012, the City's governmental funds reported combined ending fund balances of \$1,507,613, of which \$435,986 has been restricted for debt service, capital projects and other purposes; with the remainder available for next year's budget or to be spent at the City's discretion.

The General Fund is the primary operating fund for the City. At the end of 2012, the total fund balance of the General Fund was \$914,063. Of this, \$155,999 is assigned for subsequent year's expenditures, and \$758,064 is available to be spent at the City's discretion.

The fund balance for the City's General Fund increased by \$102,206 during the fiscal year. This was due to slight increases in Sales tax, \$36,002, and Property tax, \$24,209, and general City service revenue, \$32,079.

The Capital Projects Fund had an increase in fund balance of \$68,634. This was due to a transfer from the General Fund of \$157,564 in excess fund balance for Capital Projects in 2013. This fund continues to receive revenue from the passage of the .5% sales tax in 2009. Per resolution passed by the City Council, ½ of the sales tax is deposited into the Capital Projects Fund.

The Debt Service Fund had an increase of \$7,579 primarily due to greater than anticipated sales tax revenue. This fund receives the other ½ of the revenue from the passage of the .5% sales tax as mentioned above. In addition, the City saved \$2,972 in interest costs by paying off the principal on the 2003 GO Bonds in March 2012 instead of the regular payment date of September 2012. The City will save another \$1,567 in interest costs in 2013 by entirely paying off the 2003 GO Bonds in March 2013, ahead of the scheduled September 2013 payoff date.

Other governmental funds decreased by \$31,413 primarily due a higher budgeted transfer from the Special Highway Fund into the Capital Projects Fund and the purchase of computers for the Police Department out of the Drug Tax Fund.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The City's budget was not amended during 2012; therefore, the original budget and the final budget are the same.

Variations between the final budget and actual amounts are not expected to impact either liquidity or future services. The City budgets for reserves and contingency, but does not expect to expend more than a portion of the contingency. This creates a positive budget variance each year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

The City's net investment in capital assets was \$17,352,117 as of December 31, 2012. These capital assets include land, buildings, improvements, equipment, drainage improvements, streets and bridges. Capital asset activity in 2012 included the completion of the swimming pool filtration project.

	Governmental Activities	
	2012	2011
Land	\$ 2,586,272	\$ 2,586,272
Construction in progress	4,500	37,380
Buildings	701,460	736,682
Improvements other than buildings	708,730	553,415
Equipment	704,909	650,330
Infrastructure	12,646,246	13,346,403
Total	<u>\$ 17,352,117</u>	<u>\$ 17,910,482</u>

Additional information about the City's capital assets may be found in Note 2 to the basic financial statements.

### Long-Term Debt

At December 31, 2012 the City had total long-term bonds backed by the full faith and credit of the City outstanding of \$7,675,000. In December 2012, to take advantage of low interest rates, the City issued \$2,670,000 in GO Refunding Bonds (Series 2012-A) to refinance a portion of the Series 2008-A and Series 2008-B GO Bonds. The refunding will save the City \$272,000 in interest costs. This savings was allocated to 2014-2018 bond payments.

The City's total long-term bonds payable decreased by \$435,000 during the fiscal year due to principal reductions on outstanding bond issues.

In January, 2010 the City received notification that Standard & Poor's assigned a 'AA' rating to the City's series 2010-A GO Bonds. S&P affirmed this rating for the Series 2012-A GO Refunding Bonds.

Kansas statutes limit the amount of general obligation debt a governmental entity to 30% of its total assessed valuation. The current debt limitation for the City is \$24,002,268 leaving a debt margin of \$16,327,268.

Additional information on the City's long-term debt can be found in Note 4 of the basic financial statements.

<b>Outstanding Bonds</b>		
<b>General Obligation Bonds</b>		
	<b>Governmental Activities</b>	
	<b>2012</b>	<b>2011</b>
<b>General Obligation Bonds</b>		
Series 2003 Refunding	\$ 95,000	\$ 180,000
Series 2008-A	160,000	2,020,000
Series 2008-B	225,000	1,290,000
Series 2010-A	4,215,000	4,310,000
Series 2010-B	310,000	310,000
Series 2012-A	2,670,000	-
Total	<b>\$ 7,675,000</b>	<b>\$ 8,110,000</b>

### **Economic Factors**

The City experienced a 0.26% reduction in total assessed valuations in 2012. Preliminary valuations for 2013 indicate a slight increase in 2013. Sales tax collection activity for early 2013 shows improvement over the prior year.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide an overview of the City's finances for all interested parties. Questions concerning any of the information provided in the report or requests for additional information should be directed to the City Administrator/City Clerk, City of Fairway, 4210 Shawnee Mission Parkway, Suite 100, Fairway, Kansas 66205.

# **Basic Financial Statements**

**City of Fairway, Kansas**  
Statement of Net Position  
December 31, 2012

	<b>Governmental Activities</b>
<b>Assets</b>	
Deposits and investments	\$ 1,281,764
Receivables (net of allowance for uncollectibles):	
Property taxes	1,365,037
Sales and other taxes	310,091
Intergovernmental	24,616
Other	30,674
Restricted deposits and investments	37,547
Bond issue costs	155,573
Capital assets:	
Land and construction in progress	2,590,772
Other capital assets, net of depreciation	14,761,345
<b>Total assets</b>	<b>20,557,419</b>
<b>Liabilities</b>	
Accounts and retainage payable	116,513
Accrued payroll and payroll liabilities	49,452
Unearned revenue	1,365,037
Accrued interest payable	60,506
Court bonds payable	11,114
Long-term liabilities:	
Due within one year	656,292
Due in more than one year	7,280,044
<b>Total liabilities</b>	<b>9,538,958</b>
<b>Net Position</b>	
Net investment in capital assets	9,600,351
Restricted for:	
Debt service	84,472
Capital projects	197,499
Other purposes	19,244
Unrestricted	1,116,895
<b>Total net position</b>	<b>\$ 11,018,461</b>

See the accompanying notes to the basic financial statements.

**City of Fairway, Kansas**  
Statement of Activities  
For the year ended December 31, 2012

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Change in Net Position</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	
Governmental activities:					
General administration	\$ 1,024,678	\$ 359,413	\$ -	\$ -	\$ (665,265)
Public safety	1,028,619	250,345	-	8,000	(770,274)
Municipal court	147,192	-	-	-	(147,192)
Public works	1,549,795	129,643	120,446	96,000	(1,203,706)
Parks and recreation	392,766	178,032	15,982	-	(198,752)
Interest and fiscal charges	287,298	-	-	-	(287,298)
<b>Total primary government</b>	<b>\$ 4,430,348</b>	<b>\$ 917,433</b>	<b>\$ 136,428</b>	<b>\$ 104,000</b>	<b>(3,272,487)</b>

General revenues:

Taxes:	
Property taxes, levied for general purposes	1,392,141
Property taxes, levied for debt service	86,200
Sales taxes	1,319,233
Franchise taxes	367,265
Intergovernmental not restricted to a specific program	15,982
Unrestricted investment earnings	4,382
Miscellaneous	38,242
Total general revenue	<u>3,223,445</u>
Change in net position	(49,042)
Net position-beginning of year	11,067,503
Net position-end of year	<u>\$ 11,018,461</u>

See the accompanying notes to the basic financial statements

**City of Fairway, Kansas**

Balance Sheet  
Governmental Funds  
December 31, 2012

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Assets:</b>					
Deposits and investments	\$ 735,297	\$ 84,429	\$ 316,822	\$ 145,216	\$ 1,281,764
Receivables (net of allowance for uncollectibles):					
Property taxes	1,285,776	79,261	-	-	1,365,037
Sales and other taxes	265,527	22,282	22,282	-	310,091
Intergovernmental	-	-	-	24,616	24,616
Other	30,674	-	-	-	30,674
Due from other funds	-	-	12,948	-	12,948
Restricted deposits and investments	11,062	26,485	-	-	37,547
<b>Total assets</b>	<b><u>\$ 2,328,336</u></b>	<b><u>\$ 212,457</u></b>	<b><u>\$ 352,052</u></b>	<b><u>\$ 169,832</u></b>	<b><u>\$ 3,062,677</u></b>
<b>Liabilities:</b>					
Accounts and retainage payable	\$ 54,983	\$ 21,825	\$ 39,705	\$ -	\$ 116,513
Accrued payroll and payroll liabilities	49,452	-	-	-	49,452
Due to other funds	12,948	-	-	-	12,948
Court bonds payable	11,114	-	-	-	11,114
Deferred revenue	1,285,776	79,261	-	-	1,365,037
<b>Total liabilities</b>	<b><u>1,414,273</u></b>	<b><u>101,086</u></b>	<b><u>39,705</u></b>	<b><u>-</u></b>	<b><u>1,555,064</u></b>
<b>Fund balances:</b>					
Nonspendable	-	-	-	-	-
Restricted for:					
Debt service	-	111,371	-	-	111,371
Capital projects	-	-	154,783	150,588	305,371
Other purposes	-	-	-	19,244	19,244
Assigned to:					
Capital projects	-	-	157,564	-	157,564
Subsequent year's expenditures	155,999	-	-	-	155,999
Unassigned	758,064	-	-	-	758,064
<b>Total fund balances</b>	<b><u>914,063</u></b>	<b><u>111,371</u></b>	<b><u>312,347</u></b>	<b><u>169,832</u></b>	<b><u>1,507,613</u></b>
<b>Total liabilities and fund balances</b>	<b><u>\$ 2,328,336</u></b>	<b><u>\$ 212,457</u></b>	<b><u>\$ 352,052</u></b>	<b><u>\$ 169,832</u></b>	<b><u>\$ 3,062,677</u></b>

See the accompanying notes to the basic financial statements.

**City of Fairway, Kansas**  
 Reconciliation of the Balance Sheet to the Statement of Net Position  
 Governmental Funds  
 December 31, 2012

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

Ending fund balances - total governmental funds	\$ 1,507,613
<p>Governmental funds report capital outlays as expenditures.          However, in the Statement of Net Position the cost of those assets is capitalized and shown at cost, net of accumulated depreciation. This is the amount of net capital assets reported in the Statement of Net Position.</p>	
	17,352,117
<p>Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as liabilities within the fund financial statements. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. Discounts, premiums, deferred amounts on refunding and bond issuance costs are reported in the governmental fund financial statements when the debt was issued, whereas these amounts are deferred and amortized over the life of the related debt in the government-wide financial statements. Balances as of December 31, 2012 are:</p>	
Bond issuance costs, net	155,573
Accrued interest payable	(60,506)
Long-term liabilities	<u>(7,936,336)</u>
Total net position of governmental activities	<u>\$ 11,018,461</u>

**City of Fairway, Kansas**  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Funds  
For the year ended December 31, 2012

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>					
Ad valorem taxes	\$ 1,392,141	\$ 86,200	\$ -	\$ -	\$ 1,478,341
Sales tax	1,087,103	116,065	116,065	-	1,319,233
Special assessments	234,821	-	-	-	234,821
Intergovernmental	131,857	-	-	116,553	248,410
Licenses, permits and fees	96,709	-	-	-	96,709
Franchise taxes	367,265	-	-	-	367,265
Charges for services	212,378	-	-	126,283	338,661
Fines, forfeitures and penalties	244,053	-	-	3,189	247,242
Use of money and property	2,353	1,785	244	-	4,382
Miscellaneous	7,046	-	-	-	7,046
<b>Total revenues</b>	<u>3,775,726</u>	<u>204,050</u>	<u>116,309</u>	<u>246,025</u>	<u>4,342,110</u>
<b>Expenditures:</b>					
<b>Current:</b>					
General administration	975,313	-	-	-	975,313
Public safety	1,004,904	-	-	5,835	1,010,739
Municipal court	146,847	-	-	-	146,847
Public works	870,734	-	-	-	870,734
Parks and recreation	332,882	-	-	14,828	347,710
Capital outlay	-	-	197,102	-	197,102
<b>Debt service:</b>					
Principal retirements	217,932	127,693	87,206	52,307	485,138
Bond issuance costs	-	59,198	-	-	59,198
Interest and fiscal charges	94,129	101,815	32,794	84,468	313,206
<b>Total expenditures</b>	<u>3,642,741</u>	<u>288,706</u>	<u>317,102</u>	<u>157,438</u>	<u>4,405,987</u>
Excess (deficiency) of revenues over expenditures	<u>132,985</u>	<u>(84,656)</u>	<u>(200,793)</u>	<u>88,587</u>	<u>(63,877)</u>
<b>Other financing sources (uses):</b>					
Issuance of refunding bonds	-	2,670,000	-	-	2,670,000
Premium on refunding bonds issued	-	158,391	-	-	158,391
Payment to refunding bond escrow agent	-	(2,744,293)	-	-	(2,744,293)
Capital leases	114,085	-	-	-	114,085
Proceeds from sale of capital assets	12,700	-	-	-	12,700
Transfers in	-	8,137	277,564	-	285,701
Transfers out	(157,564)	-	(8,137)	(120,000)	(285,701)
<b>Total other financing sources (uses)</b>	<u>(30,779)</u>	<u>92,235</u>	<u>269,427</u>	<u>(120,000)</u>	<u>210,883</u>
Net change in fund balances	102,206	7,579	68,634	(31,413)	147,006
Fund balances, beginning of year	811,857	103,792	243,713	201,245	1,360,607
Fund balances, end of year	<u>\$ 914,063</u>	<u>\$ 111,371</u>	<u>\$ 312,347</u>	<u>\$ 169,832</u>	<u>\$ 1,507,613</u>

See the accompanying notes to the basic financial statements.

**City of Fairway, Kansas**  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities  
 For the year ended December 31, 2012

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

Net changes in fund balances - total governmental funds	\$ 147,006
<p>Governmental funds report capital outlays as expenditures in the year acquired. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts are the effect of capital additions and depreciation in the current period:</p>	
Capital additions	611,771
Depreciation expense	(1,174,632)
<p>Contributions of capital assets are reported as capital contributions in the Statement of Activities.</p>	
	8,000
<p>The proceeds from the sale of capital assets are reported as revenues in the governmental funds. However, the cost and accumulated depreciation are removed from the capital asset accounts and offset against the proceeds in the Statement of Activities. This is the amount of the net book value of the assets disposed.</p>	
	(3,504)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. These amounts are the effect of the differences in the treatment of long-term debt and related items:</p>	
Proceeds and premium on refunding bonds	(2,828,391)
Payment to refunding bond escrow agent	2,744,293
Capital leases	(114,085)
Principal payments	485,138
Accrued interest expense	34,900
Amortization of bond premiums	3,558
Amortization of the deferred amount on refunding	(625)
Bond issuance costs, net	50,498
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>	
Change in compensated absences	(10,410)
Change in postemployment benefits	(2,559)
	(10,410)
Change in postemployment benefits	(2,559)
	(2,559)
Change in postemployment benefits	(2,559)
	(2,559)
Total change in net position of governmental activities	\$ (49,042)

See the accompanying notes to the basic financial statements.

**Notes to the  
Basic  
Financial Statements**

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

**Note 1: Summary of Significant Accounting Policies**

The City of Fairway, Kansas (the City), was incorporated in 1949 as a City of the second class. The City operates under a Mayor-Council form of government and provides the following services as authorized by its charter: public safety (police), street maintenance, solid waste removal, culture and recreation, public improvements, and general administrative services.

The accounting and reporting policies of the City of Fairway, Kansas conform to accounting principles generally accepted in the United States of America. The more significant accounting and reporting policies and practices employed by the City are as follows:

**A. Reporting Entity**

Generally accepted accounting principles require that the basic financial statements present the City (the primary government) and its component units. Component units are required to be included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Based on the evaluation criteria, there are no component units related to the City which should be accounted for in the basic financial statements.

**B. Basis of Presentation**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds).

**Government-wide Financial Statements**

The Statement of Net Position and the Statement of Activities display information about the City, the primary government, as a whole. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The government-wide Statement of Activities presents a comparison between expenses and program revenues for each program of the governmental activities. Expenses are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the City.

The City's net position is reported in three parts—net investment in capital assets; restricted and unrestricted.

The government-wide focus is more on the sustainability of the City as an entity and the change in the City's net position resulting from the current year's activities.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

**Fund Financial Statements**

Fund financial statements report detailed information about the City. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

The major governmental funds of the City are described below:

General Fund - is the main operating fund of the City which accounts for all financial transactions not accounted for in other funds. The general operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are financed through revenues received by the General Fund.

Capital Projects Fund - is used to account for all resources derived from bond proceeds, grants and contributions from outside agencies used to finance major capital improvements in the City.

Debt Service Fund - is used to account for resources to be used for the payment of principal, interest and related costs of the general obligation bonds and certain other long-term obligations of the City.

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

**Government-wide Financial Statements**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, sales tax and donations. Revenues from grants or donations are recognized in the fiscal year in which all eligibility requirements have been satisfied. This approach differs from the manner in which governmental fund financial statements are prepared. Therefore, the governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**Governmental Fund Financial Statements**

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

**Revenue Recognition**

In applying the susceptible to accrual concept under the modified accrual basis, certain revenue sources are deemed both measurable and available (collectible within the current year or within two months of year-end and available to pay obligations of the current period). This includes sales taxes, franchise taxes, investment earnings and state-levied locally shared taxes (including motor

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

fuel taxes). Reimbursements due for grant funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Property taxes, though measurable, are not available soon enough in the subsequent year to finance current period obligations. Therefore, property taxes receivable are recorded and deferred until they become available.

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

**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 long-term debt which have not matured are recognized when due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

**Budgetary Basis Accounting and Information**

Kansas statutes require that an annual operating budget be legally adopted for the General Fund, Special Revenue Funds (unless specially exempted by statute), and the Debt Service Fund. An annual operating budget is not required for the Drug Tax special revenue fund under the statutory exemption. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

- (1) Preparation of the budget for the succeeding calendar year on or before August 1<sup>st</sup>.
- (2) Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5<sup>th</sup>.
- (3) Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
- (4) Adoption of the final budget on or before August 25<sup>th</sup>.

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 any time. There were no budget amendments in 2012.

The statutes establish the overall budget level of control at the fund level by prohibiting expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Management may not amend a fund's budgeted expenditures without Council approval. Spending in funds that are not subject to the legal annual operating budget requirement are controlled by federal regulations, other statutes, or by the use of internal spending limits established by the City.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the City for future payments such as purchase orders or contracts.

**Property Taxes Receivable**

In accordance with governing state statutes, property taxes levied during the current year are revenue sources to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and are levied and become a lien on the property on November 1 of each year. The County Treasurer is the tax collection agent for all taxing entities within the 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 the 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, the taxes levied during the current year are not recognized as revenue until the ensuing year. At December 31, such taxes are recorded as taxes receivable with a corresponding amount recorded as deferred revenues on the balance sheets of the appropriate funds. It is not practical to apportion delinquent taxes held by the County Treasurer as of December 31, 2012. Estimated delinquencies are insignificant and have not been recorded.

**Deposits and Investments**

The disclosures that follow have been prepared in accordance with the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement establishes disclosure requirements for investment and deposit risks related to credit risk, concentrations of credit risk, interest rate risk, and foreign currency risk.

The City pools temporarily idle cash from all funds for investment purposes. Each fund's portion of the pool is shown on the financial statements as deposits and investments. Deposits during the year included cash in interest bearing and demand bank accounts, and certificates of deposit. Interest is allocated to each fund based on the respective invested balance.

A summary of the carrying values of deposits, certificates of deposit and petty cash at December 31, 2012 is as follows:

Total deposits	\$ 896,096
Certificates of deposit	423,046
Petty cash	169
	\$ 1,319,311

Restricted deposits and investments in the Debt Service Fund consist of cash held by the Series 2012-A bond issue escrow agent in the cost of issuance account, and for court bonds in the General Fund.

**Investment Policies**

State statutes limit the types of investments the City may utilize. Allowable investments generally include United States Treasury bills or notes with maturities not exceeding two years, repurchase agreements and the Kansas State Municipal Investment Pool. In addition, bond proceeds may be

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

invested in United States government agency securities, money market mutual funds that invest in United States government or agency securities and certain Kansas municipal obligations.

**Custodial Credit Risk**

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. For deposits, the City follows state statutes which require pledged collateral with a fair value equal to 100% of the funds on deposit, less insured amounts, and that the collateral be held in safekeeping in the City's name at other than the depository financial institution.

At December 31, 2012, the City's deposits were covered by Federal depository insurance or were fully collateralized by securities held by the City's agent in the City's name.

**Interest Rate Risk**

As a means of managing its exposure to fair value losses arising from increasing interest rates, the City follows state statutes which generally limit investment maturities to two years. To minimize the risk of loss, the City matches investments to anticipated cash flows and diversifies the investment types to the extent practicable.

**Capital Assets**

Capital assets, which include property, equipment, and infrastructure assets (i.e. roads, storm sewers, etc.), are reported in the applicable governmental activities column in the government-wide financial statements. In the governmental fund statements, capital assets are charged to expenditures as purchased. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are recorded at estimated fair value as of the date of the donation.

Capital assets are defined by the City as assets with an initial individual cost of \$1,000 or more and a useful life greater than one year. Additions or improvements and other capital outlays that significantly extend the useful life of an asset, or that significantly increase the capacity of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Assets, which have been acquired with funds received through grants, must be used in accordance with the terms of the grant.

Depreciation on exhaustible assets is recorded as an allocated expense in the Statement of Activities with accumulated depreciation reflected in the Statement of Net Position and is provided on the straight-line basis over the following estimated useful lives:

Buildings	20 years
Improvements other than buildings	7-30 years
Equipment	5-20 years
Infrastructure	10-50 years

Fully depreciated capital assets are included in the capital asset accounts until their disposal.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

**Compensated Absences**

City employees earn vacation time in varying amounts based upon their length of service. The City's policies allow unused vacation leave and all unused compensatory time to be carried over into the next year. The unused vacation leave carryover is limited to the maximum number of hours earned in the calendar year. This carryforward is payable upon separation from service. The liability of \$82,181 for vacation leave at December 31, 2012 is reported in the government-wide financial statements, but not in the governmental fund financial statements as it is not estimated to be payable from expendable available resources.

In lieu of sick time, employees are allowed to receive salary continuation for up to 30 consecutive days per illness upon approval of their supervisor. If an employee is unable to perform their duties as a result of illness or disability, the City provides a short-term disability policy through a third-party to all full-time employees. The policy takes effect on the 31<sup>st</sup> calendar day following a salary continuation that has been paid for by the City and may last up to 22 weeks.

**Fund Balances**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, established the following fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, how fund balances are classified and reported, and clarified the definitions of existing governmental fund types.

**Nonspendable** – Nonspendable consists of amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact.

**Restricted** – Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or is imposed by law through constitutional provisions or enabling legislation.

**Committed** – This classification consists of amounts that can be used only for the specific purposes imposed by a formal action of the governing body and cannot be used for any other purpose unless removed or changed by taking the same type of action that previously committed those amounts.

**Assigned** – Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts would represent intended uses established by the governing body or a City official delegated that authority, and include the amount used to finance expenditures for the next year's budget.

**Unassigned** – Unassigned fund balance is the residual classification for the General Fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed or assigned.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

The City applies restricted resources first to finance qualifying expenditures, when either restricted or unrestricted amounts are available. For unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts.

**Minimum Unassigned Fund Balance** – It is the policy of the City to maintain an unassigned fund balance in the General Fund equal to 10% of the current year budget to be used for unanticipated expenditures of an emergency or nonrecurring nature, and for cash flow needs. Amounts above the minimum may be used for transfers to the Capital Projects or Debt Service funds.

**Use of Estimates**

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

**Note 2: Capital Assets**

A summary of changes in capital assets for the year follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,586,272	\$ -	\$ -	\$ 2,586,272
Construction in progress	37,380	381,029	413,909	4,500
Total capital assets not being depreciated	<u>2,623,652</u>	<u>381,029</u>	<u>413,909</u>	<u>2,590,772</u>
Capital assets being depreciated:				
Buildings	1,216,085	-	-	1,216,085
Improvements other than buildings	1,285,762	225,180	-	1,510,942
Equipment	1,683,963	208,492	142,011	1,750,444
Infrastructure	22,321,719	218,979	-	22,540,698
Total capital assets being depreciated	<u>26,507,529</u>	<u>652,651</u>	<u>142,011</u>	<u>27,018,169</u>
Less accumulated depreciation for:				
Buildings	479,403	35,222	-	514,625
Improvements other than buildings	732,347	69,865	-	802,212
Equipment	1,033,633	150,409	138,507	1,045,535
Infrastructure	8,975,316	919,136	-	9,894,452
Total accumulated depreciation	<u>11,220,699</u>	<u>\$ 1,174,632</u>	<u>\$ 138,507</u>	<u>12,256,824</u>
Total capital assets being depreciated, net	<u>15,286,830</u>			<u>14,761,345</u>
Governmental activities capital assets, net	<u>\$ 17,910,482</u>			<u>\$ 17,352,117</u>

Depreciation expense was charged to the functions/programs of the City government as follows:

General administration	\$ 51,820
Public safety	102,198
Public works	961,980
Parks and recreation	58,634
Total depreciation expense	<u>\$ 1,174,632</u>

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

**Note 3: Special Assessments**

Special assessment taxes consist of charges to the City's residents for trash and recycling services and are due and payable with annual ad valorem property taxes.

**Note 4: Long-term Debt**

The following is a summary of changes in long-term debt for the year ended December 31, 2012:

	Balance January 1, 2012	Increases	Decreases	Balance December 31, 2012	Amounts Due Within One Year
General obligation bonds	\$ 8,110,000	\$ 2,670,000	\$ 3,105,000	\$ 7,675,000	\$ 535,000
Unamortized premium	42,848	158,391	3,558	197,681	19,873
Deferred amount on refunding	-	(145,584)	(625)	(144,959)	(14,996)
Capital leases	12,507	114,085	20,138	106,454	34,234
Compensated absences*	71,771	86,951	76,541	82,181	82,181
Postemployment benefits	17,420	2,559	-	19,979	-
Total governmental activities debt	<u>\$ 8,254,546</u>	<u>\$ 2,886,402</u>	<u>\$ 3,204,612</u>	<u>\$ 7,936,336</u>	<u>\$ 656,292</u>

\* Compensated absences typically have been liquidated in the General Fund.

General obligation bonds outstanding at December 31, 2012 are as follows:

	Date Issued	Interest Rates	Original Amount	Maturity Date	Outstanding December 31, 2012
Internal improvements:					
Series 2003 Refunding	5/15/03	2 - 3.3%	\$ 770,000	9/1/13	\$ 95,000
Series 2008 A	2/15/08	2 - 3.75%	2,900,000	9/1/13	160,000
Series 2008 B	10/15/08	3.5 - 4.5%	1,600,000	9/1/14	225,000
Series 2010 A	1/15/10	2 - 4%	4,470,000	9/1/29	4,215,000
Series 2010 B	12/15/10	2 - 3%	310,000	9/1/18	310,000
Series 2012 A	12/15/12	2%	2,670,000	9/1/22	2,670,000
			<u>\$ 12,720,000</u>		<u>\$ 7,675,000</u>

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

The annual debt service requirements to amortize the general obligation bonds outstanding as of December 31, 2012 are as follows:

Year	Principal	Interest	Total
2013	\$ 535,000	\$ 211,926	\$ 746,926
2014	430,000	212,093	642,093
2015	435,000	201,038	636,038
2016	445,000	191,338	636,338
2017	455,000	181,213	636,213
2018 - 2022	2,295,000	743,589	3,038,589
2023 - 2027	2,120,000	433,090	2,553,090
2028 - 2029	960,000	58,000	1,018,000
Total	<u>\$ 7,675,000</u>	<u>\$ 2,232,287</u>	<u>\$ 9,907,287</u>

On December 15, 2012, the City issued \$2,670,000 in General Obligation Refunding Bonds, Series 2012-A to advance refund a portion of the Series 2008-A bonds consisting of the \$1,685,000 of principal due to mature from September 1, 2014 through 2022, and \$955,000 of the Series 2008-B bond principal due to mature from September 1, 2015 through 2021. The net proceeds of \$2,772,668, including \$158,391 of issuance premium and \$8,135 of City funds, and after the payment of issue costs, were used to purchase U.S. government securities which were deposited with an escrow agent to be used to call and redeem these maturities in 2013 and 2014. As a result of the refunding, these maturities are considered defeased and the related liability for them has been removed from long-term debt.

The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$145,584. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being amortized through the year 2022. The City completed the refunding to reduce its total debt service payments over the next ten years by \$272,402.

The City has entered into two capital leases to finance the purchase of four vehicles with a cost of \$148,122 at interest rates of 2.09% and 4.15%, with payments due in annual installments through 2016. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2012 are as follows:

2013	\$ 36,181
2014	29,800
2015	29,800
2016	14,900
	<u>110,681</u>
Less imputed interest	<u>(4,227)</u>
Present value of minimum lease payments	<u>\$ 106,454</u>

Legal Debt Margin

The City is subject to state statutes, which limit the amount of bonded debt (exclusive of revenue bonds, bonds issued for storm drainage and sanitary sewer improvements, and refunding bonds) that the City may issue to 30% of assessed valuation. Currently the City has a debt limit of \$24,002,268, leaving a debt margin of \$16,327,268.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

**Note 5: Pension and Other Postemployment Benefit Plans**

Defined Benefit Plans

Plan Description – The City participates in the Kansas Public Employees Retirement System (KPERS) and the Kansas Police and Firemen's Retirement System (KP&F). Both are part of a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS and KP&F provide retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS and KP&F issue a single available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas Avenue, Suite 100; Topeka, KS 66603-3803) or by calling 1-888-275-5737.

Funding Policy – K.S.A. 74-4919 establishes the KPERS member-employee contribution rate at 4% of covered salary. K.S.A. 74-4975 establishes the KP&F member-employee contribution rate at 7% 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 and KP&F are funded on an actuarial reserve basis. State law sets a limitation on annual increases in the employer contribution rates. The KPERS employer rate established by statute for calendar year 2012 is 8.34%. The City's employer contributions to KPERS for the years ended December 31, 2012, 2011, and 2010 were \$44,541, \$41,787 and \$37,774, respectively, equal to the statutory required contributions for each year. The KP&F uniform participating employer rate established for fiscal year 2012 is 16.54%. Employers participating in KP&F also make contributions to amortize the liability for past service costs, if any, which is determined separately for each participating employer. The City's contributions to KP&F for the years ended December 31, 2012, 2011, and 2010 were \$97,386, \$84,741 and \$81,847, respectively, equal to the statutory required contributions for each year.

Defined Contribution Plan

The City has established a defined contribution plan for those full-time employees eligible for the KPERS and KP&F programs. The plan is administered by ING Life Insurance and Annuity Company, and any changes to the plan's provisions or the contribution requirements are determined by the governing body of the City. There were no contributions for 2012.

Other Postemployment Benefits

In accordance with GASB Statement No. 45, the City recognizes the cost of postemployment healthcare benefits in the year when the employee services are provided and reports the accumulated liability from prior years.

Plan Description - In addition to providing the pension benefits described above, the City provides employees that retire under KPERS and KP&F at the same time they end their service to the City the opportunity for continuation of medical and dental insurance coverage offered through Midwest Public Risk (MPR), a public entity risk pool. It has been determined that MPR functions as an agent multiple-employer plan.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

Retirees who elect to continue coverage in the medical and dental plans offered through MPR are required to pay a contribution until the employee becomes eligible for Medicare. Since the retirees pay the premiums each year, the City's share of any premium cost is determined on the basis of a blended rate or implicit rate subsidy calculation. This implicit rate subsidy is considered an other postemployment benefit (OPEB) under GASB 45. The benefits and benefit levels are governed by City policy and the MPR pool arrangement.

The pool arrangement with MPR is maintained to collect premiums and pay claims and administrative costs and does not qualify as an OPEB plan and is not treated as holding assets in order to offset GASB 45 liabilities. The plan is not accounted for as a trust fund since an irrevocable trust has not been established. There is no stand alone financial report for the plan.

Funding Policy - The City does not pay retiree benefits directly, as they are paid implicitly over time through employer subsidization of active premiums that would be lower if retirees were not part of the experience group.

Annual OPEB Cost and Net OPEB Obligation - The City's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, which represents an amount that is actuarially determined in accordance with the requirements of GASB Statement 45. The ARC represents the level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year plus the amortization of the unfunded actuarial liability over thirty years.

For the year ended December 31, 2012, the components of the annual OPEB cost are as follows:

Normal cost	\$ 4,661
Amortization of unfunded liability	<u>3,106</u>
Annual required contribution	7,767
Interest on net OPEB obligation	871
Adjustment to the ARC	<u>(1,079)</u>
Annual OPEB cost	<u>\$7,559</u>

The schedule of employer contributions for the year ended December 31, 2012 is as follows:

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Estimated Retiree Benefits For the Year*</u>	<u>Percentage Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 8,099	\$3,000	37%	\$13,369
2011	8,051	4,000	49.7%	17,420
2012	7,559	5,000	66.2%	19,979

\* Contribution related to implicit rate subsidy.

Funded Status and Funding Progress - As of July 1, 2011, which represents the most recent actuarial valuation date, the actuarial accrued liability for benefits within the plan for the City is \$46,597. There are no assets set aside for funding the plan as of that date, thus the entire amount is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,002,283, which results in a ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll of 4.6%.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

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

Actuarial Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 5% investment rate of return and an annual healthcare cost trend rate of 8.5% initially, reduced by decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized on a level dollar, open basis over a period of thirty years.

**Note 6: Interfund Transfers**

Interfund transfers for the year ended December 31, 2012 are as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 157,564
Debt service fund	8,137	-
Capital projects fund	277,564	8,137
Special Highway fund	-	120,000
	<u>\$ 285,701</u>	<u>\$ 285,701</u>

Transfers are used to (1) move revenues from the fund that a statute or the budget requires to collect them to the fund that a statute or the budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Any transfers within the governmental funds have been eliminated in the government-wide Statement of Activities.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

**Note 7: Commitments and Contingencies**

Litigation

The City is a party in various legal actions and claims arising in the normal course of its activities. The ultimate liability that might result from their resolution is not presently determinable; however, in the opinion of management and counsel, the probability of material aggregate liabilities resulting from these claims is remote.

Operating Lease

The City has entered into an operating lease agreement for City Hall office space. The lease began September 15, 2008 and has an initial term of seven years, with an option to renew for an additional five years. For 2012, the lease expenditures under this lease were \$83,748. The future minimum rental payments are as follows:

2013	\$ 85,842
2014	87,988
2015	63,355
	<u>\$ 237,185</u>

Sales Tax Reimbursement Agreements

In 2008, the City agreed to reimburse a portion of the City's 1% general sales tax generated by a business relocating to the City in order to assist it in offsetting a portion of its cost of renovating and equipping the new location. The agreement became effective for sales tax collected on May 1, 2008, and limits the reimbursement to a maximum of \$200,000 over its five year term, payable on an annual basis solely from the additional sales tax generated by the taxpayer. As of December 31, 2012, \$86,890 has been paid under this agreement.

A similar agreement was entered into in 2011 to reimburse certain eligible costs, up to a maximum of \$40,000, also payable on an annual basis solely from the City's 1% general sales tax generated by the business. As of December 31, 2012, \$8,168 has been paid under this agreement.

Commitments

Capital projects often extend over several years. The City has made normal commitments for future expenditures related to capital project programs.

**Note 8: Risk Management**

The City is exposed to various risks of loss related to torts, loss and damage to property, errors and omissions and injuries to employees. There have been no significant changes in coverages from the previous year and settled claims have not exceeded the insurance coverage in any of the past three years. The City obtains health, dental, and property and liability coverage through its membership in Midwest Public Risk (MPR), which was formed as a public entity risk retention pool. MPR has the authority to assess its members additional premiums should reserves and premiums be insufficient to meet its obligations. MPR has not had any deficiencies in the last three years and the City does not anticipate any additional assessments in excess of the premiums paid.

**City of Fairway, Kansas**  
**Notes to the Basic Financial Statements**  
**December 31, 2012**

The City obtains workers' compensation insurance through its membership in the Kansas Eastern Region Insurance Trust (KERIT), whose members consist of local cities and counties. KERIT is a risk-sharing pool organized under the insurance laws of the State of Kansas, which self-insures workers' compensation and other related expenses up to certain limits and reinsures additional excess amounts up to certain limits. The City pays annual premiums to the Trust based upon historical experience and legal requirements mandated by the State of Kansas. The trust agreement allows for member assessments in the event claims and expenses exceed the Trust's self-insured retention limit. The City does not anticipate any additional assessments in excess of premiums paid as a result of their participation in the Trust.

**Required  
Supplementary  
Information**

## City of Fairway, Kansas

Required Supplementary Information  
 Budgetary Comparison Schedule - General Fund  
 (Non-GAAP Basis)  
 For the year ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 1,401,606	\$ 1,401,606	\$ 1,392,141	\$ (9,465)
Sales tax	964,356	964,356	1,087,103	122,747
Special assessments	233,473	233,473	234,821	1,348
Intergovernmental	15,129	15,129	15,982	853
Licenses, permits and fees	82,000	82,000	96,709	14,709
Franchise taxes	364,400	364,400	367,265	2,865
Charges for services	168,200	168,200	212,378	44,178
Fines, forfeitures and penalties	318,800	318,800	244,053	(74,747)
Use of money and property	4,000	4,000	2,353	(1,647)
Miscellaneous	5,000	5,000	7,046	2,046
	<u>3,556,964</u>	<u>3,556,964</u>	<u>3,659,851</u>	<u>102,887</u>
Total revenues				
Expenditures:				
Current:				
General administration	1,260,632	1,260,632	1,138,246	122,386
Public safety	1,056,398	1,056,398	972,894	83,504
Municipal court	160,027	160,027	146,847	13,180
Public works	892,312	892,312	821,912	70,400
Parks and recreation	344,195	344,195	332,882	11,313
	<u>3,713,564</u>	<u>3,713,564</u>	<u>3,412,781</u>	<u>300,783</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	(156,600)	(156,600)	247,070	403,670
Other financing sources (uses):				
Proceeds from sale of capital assets	-	-	12,700	12,700
Transfers out	-	-	(157,564)	(157,564)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(144,864)</u>	<u>(144,864)</u>
Net change in fund balances	(156,600)	(156,600)	102,206	<u>\$ 258,806</u>
Fund balance, beginning of year	<u>156,600</u>	<u>156,600</u>	<u>811,857</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 914,063</u>	

## City of Fairway, Kansas

### Schedule of Funding Progress - Other Postemployment Benefit Obligations For the year ended December 31, 2012

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	( c ) Annual Covered Payroll	((b-a)/c)) UAL as a Percent of Covered Payroll
7/1/07	\$ -	\$ 61,563	\$ 61,563	0%	\$ 1,052,783	5.8%
7/1/09	\$ -	\$ 48,270	\$ 48,270	0%	\$ 1,130,646	4.3%
7/1/11	\$ -	\$ 46,597	\$ 46,597	0%	\$ 1,002,283	4.6%

**City of Fairway, Kansas**  
Notes to Required Supplementary Information  
December 31, 2012

Required supplementary information includes financial information and disclosures that are required by GASB but are not considered a part of the basic financial statements. This information includes the Budgetary Comparison Schedule – General Fund and the Schedule of Funding Progress – Other Postemployment Benefits.

Budgetary Data

The City utilizes encumbrances for budgetary reporting purposes. Encumbrances relating to certain contractual agreements, supplies and equipment that have been ordered but not received are reported in the year the commitment arises for budgetary reporting purposes. However, for financial reporting purposes, the goods or services are reported when they are received. All unencumbered appropriations lapse at year-end.

Budgetary Comparison Schedule

For financial reporting purposes, grant reimbursements are reported as intergovernmental revenues, and the related costs as expenditures. For budgetary purposes these are allowed to be reported net as a reimbursed expenditure. Also, the principal amount of asset acquisitions financed by capital leases are shown as an expenditure for financial reporting purposes yet are excluded from budgetary expenditures. The reconciliation of the amounts reported in the budgetary comparison schedule for the General Fund to the Statement of Revenues, Expenditures and Changes in Fund Balances (GAAP basis) is as follows:

<u>Revenues</u>	
General Fund - budgetary basis	\$ 3,659,851
Grant revenues	115,875
GAAP basis	<u>\$ 3,775,726</u>
 <u>Expenditures</u>	
General Fund - budgetary basis	\$ 3,412,781
Grant expenditures	115,875
Capital lease acquisitions	114,085
GAAP basis	<u>\$ 3,642,741</u>

**Combining and  
Individual Fund  
Statements  
and  
Schedules**

**City of Fairway, Kansas**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
December 31, 2012

	<u>Special Highway</u>	<u>Alcohol and Drug Safety Action</u>	<u>Storm Water Utility</u>	<u>L.A.L. Park</u>	<u>Drug Tax</u>	<u>Totals</u>
<b>Assets:</b>						
Deposits and investments	\$ 104,559	\$ 4,293	\$ 21,413	\$ 13,060	\$ 1,891	\$ 145,216
Receivables, net :						
Intergovernmental	<u>24,616</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,616</u>
Total assets	<u>\$ 129,175</u>	<u>\$ 4,293</u>	<u>\$ 21,413</u>	<u>\$ 13,060</u>	<u>\$ 1,891</u>	<u>\$ 169,832</u>
<b>Liabilities</b>						
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Fund balances:</b>						
Restricted for:						
Public safety	-	4,293	-	-	1,891	6,184
Capital projects	129,175	-	21,413	-	-	150,588
Parks and recreation	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,060</u>	<u>-</u>	<u>13,060</u>
Total fund balances	<u>129,175</u>	<u>4,293</u>	<u>21,413</u>	<u>13,060</u>	<u>1,891</u>	<u>169,832</u>
Total liabilities and fund balances	<u>\$ 129,175</u>	<u>\$ 4,293</u>	<u>\$ 21,413</u>	<u>\$ 13,060</u>	<u>\$ 1,891</u>	<u>\$ 169,832</u>

**City of Fairway, Kansas**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances - Nonmajor Governmental Funds  
For the year ended December 31, 2012

	<u>Special Highway</u>	<u>Alcohol and Drug Safety Action</u>	<u>Storm Water Utility</u>	<u>L.A.L. Park</u>	<u>Drug Tax</u>	<u>Totals</u>
Revenues:						
Intergovernmental	\$ 100,571	\$ -	\$ -	\$ 15,982	\$ -	\$ 116,553
Charges for services	-	-	126,283	-	-	126,283
Fines, forfeitures and penalties	-	3,180	-	-	9	3,189
Total revenues	<u>100,571</u>	<u>3,180</u>	<u>126,283</u>	<u>15,982</u>	<u>9</u>	<u>246,025</u>
Expenditures:						
Public safety	-	1,555	-	-	4,280	5,835
Parks and recreation	-	-	-	14,828	-	14,828
Debt service:						
Principal retirements	-	-	52,307	-	-	52,307
Interest and fiscal charges	-	-	84,468	-	-	84,468
Total expenditures	<u>-</u>	<u>1,555</u>	<u>136,775</u>	<u>14,828</u>	<u>4,280</u>	<u>157,438</u>
Excess (deficiency) of revenues over expenditures	<u>100,571</u>	<u>1,625</u>	<u>(10,492)</u>	<u>1,154</u>	<u>(4,271)</u>	<u>88,587</u>
Other financing uses:						
Transfers out	<u>(120,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(120,000)</u>
Net change in fund balances	<u>(19,429)</u>	<u>1,625</u>	<u>(10,492)</u>	<u>1,154</u>	<u>(4,271)</u>	<u>(31,413)</u>
Fund balance, beginning of year	<u>148,604</u>	<u>2,668</u>	<u>31,905</u>	<u>11,906</u>	<u>6,162</u>	<u>201,245</u>
Fund balance, end of year	<u>\$ 129,175</u>	<u>\$ 4,293</u>	<u>\$ 21,413</u>	<u>\$ 13,060</u>	<u>\$ 1,891</u>	<u>\$ 169,832</u>

## City of Fairway, Kansas

### Special Highway Fund

#### Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual (Non-GAAP Basis)

For the year ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Intergovernmental	<u>\$ 104,160</u>	<u>\$ 104,160</u>	<u>\$ 100,571</u>	<u>\$ (3,589)</u>
Expenditures:				
Public works	<u>114,275</u>	<u>114,275</u>	<u>-</u>	<u>114,275</u>
Excess of revenues over (under) expenditures	<u>(10,115)</u>	<u>(10,115)</u>	<u>100,571</u>	<u>110,686</u>
Other financing uses:				
Transfers out	<u>(120,000)</u>	<u>(120,000)</u>	<u>(120,000)</u>	<u>-</u>
Net change in fund balances	<u><u>\$ (130,115)</u></u>	<u><u>\$ (130,115)</u></u>	<u>(19,429)</u>	<u><u>\$ 110,686</u></u>
Fund balance, beginning of year			<u>148,604</u>	
Fund balance, end of year			<u><u>\$ 129,175</u></u>	

**City of Fairway, Kansas**

Alcohol and Drug Safety Action Fund

Schedule of Revenues, Expenditures  
and Changes in Fund Balance  
Budget and Actual  
(Non-GAAP Basis)

For the year ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Fines, forfeitures and penalties	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 3,180</u>	<u>\$ (6,820)</u>
Expenditures:				
Public safety	<u>10,883</u>	<u>10,883</u>	<u>1,555</u>	<u>9,328</u>
Net change in fund balances	<u>\$ (883)</u>	<u>\$ (883)</u>	<u>1,625</u>	<u>\$ 2,508</u>
Fund balance, beginning of year			<u>2,668</u>	
Fund balance, end of year			<u>\$ 4,293</u>	

**City of Fairway, Kansas**

Storm Water Utility Fund

Schedule of Revenues, Expenditures  
and Changes in Fund Balance  
Budget and Actual  
(Non-GAAP Basis)

For the year ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Charges for services	<u>\$ 120,000</u>	<u>\$ 120,000</u>	<u>\$ 126,283</u>	<u>\$ 6,283</u>
Expenditures:				
Public works	11,858	11,858	-	11,858
Debt service	<u>136,775</u>	<u>136,775</u>	<u>136,775</u>	<u>-</u>
Total expenditures	<u>148,633</u>	<u>148,633</u>	<u>136,775</u>	<u>11,858</u>
Net change in fund balances	<u>\$ (28,633)</u>	<u>\$ (28,633)</u>	<u>(10,492)</u>	<u>\$ 18,141</u>
Fund balance, beginning of year			<u>31,905</u>	
Fund balance, end of year			<u>\$ 21,413</u>	

**City of Fairway, Kansas**

L.A.L. Park Fund

Schedule of Revenues, Expenditures  
and Changes in Fund Balance  
Budget and Actual  
(Non-GAAP Basis)

For the year ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Intergovernmental	<u>\$ 15,129</u>	<u>\$ 15,129</u>	<u>\$ 15,982</u>	<u>\$ 853</u>
Expenditures:				
Parks and recreation	<u>19,008</u>	<u>19,008</u>	<u>14,828</u>	<u>4,180</u>
Net change in fund balances	<u>\$ (3,879)</u>	<u>\$ (3,879)</u>	<u>1,154</u>	<u>\$ 5,033</u>
Fund balance, beginning of year			<u>11,906</u>	
Fund balance, end of year			<u>\$ 13,060</u>	

**City of Fairway, Kansas**

Debt Service Fund

Schedule of Revenues, Expenditures and  
Changes in Fund Balance  
Budget and Actual  
(Non-GAAP Basis)

For the year ended December 31, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 86,472	\$ 86,472	\$ 86,200	\$ (272)
Sales taxes	108,000	108,000	116,065	8,065
Use of money and property	-	-	1,785	1,785
<b>Total revenues</b>	<u>194,472</u>	<u>194,472</u>	<u>204,050</u>	<u>9,578</u>
Expenditures:				
Debt service	202,493	202,493	201,133	1,360
Contingency	<u>72,723</u>	<u>72,723</u>	-	<u>72,723</u>
Budgetary basis expenditures	275,216	275,216	201,133	74,083
Exempt debt service-advance refunding	-	-	87,573	(87,573)
<b>Total expenditures</b>	<u>275,216</u>	<u>275,216</u>	<u>288,706</u>	<u>(13,490)</u>
Excess of revenues over (under) expenditures	<u>(80,744)</u>	<u>(80,744)</u>	<u>(84,656)</u>	<u>(3,912)</u>
Other financing sources (uses):				
Issuance of refunding bonds	-	-	2,670,000	2,670,000
Premium on refunding bonds issued	-	-	158,391	158,391
Payment to refunding bond escrow agent	-	-	(2,744,293)	(2,744,293)
Transfers in	-	-	8,137	8,137
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>92,235</u>	<u>92,235</u>
<b>Net change in fund balances</b>	<u>\$ (80,744)</u>	<u>\$ (80,744)</u>	7,579	<u>\$ 88,323</u>
Fund balance, beginning of year			<u>103,792</u>	
Fund balance, end of year			<u>\$ 111,371</u>	