

CITY OF FAIRWAY, KANSAS
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2014

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, 2014 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, 2014, 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 basic 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. This 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.

Cudrey, Seord, McEuse & Williams LLC

May 15, 2015

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, 2014. 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 and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$10,395,195 (net position).
- The City's total net position decreased during this fiscal year by \$229,494 primarily due to depreciation on capital assets.
- At the close of 2014, the City's governmental funds reported combined ending fund balances of \$2,239,269, an increase of \$695,340 over the prior year. This was primarily due to the issuance of \$1,000,000 of general obligation bonds to finance Capital Projects.
- At the close of 2014, the available fund balance for the General Fund was \$1,083,140, an increase of \$109,269 over the prior year. This includes \$386,264 of General Fund reserve at the end of 2014.
- The City's total general obligation (GO) debt increased by \$570,000 during 2014 due to pay down of prior bond issues and the 2014 bond issuance related to Pool and Public Works facility improvements.

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, liabilities and deferred inflows/outflows of resources 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 2014.

Fund Financial Statements

A fund is a grouping of related accounts that are 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

Condensed Statement of Net Position		
	Governmental Activities	
	2014	2013
Current and other assets	\$ 3,876,110	\$ 3,070,770
Capital assets	16,361,054	16,529,203
Total assets	<u>20,239,178</u>	<u>19,599,973</u>
Deferred outflows of resources	114,967	129,963
Long-term liabilities	8,236,410	7,507,708
Other liabilities	276,912	223,030
Total liabilities	<u>8,513,322</u>	<u>7,730,738</u>
Deferred inflows of resources	1,443,614	1,374,509
Net position:		
Net investment in capital assets	8,909,176	9,405,068
Restricted	230,701	211,500
Unrestricted	1,255,318	1,008,121
Total net position	<u>\$ 10,395,195</u>	<u>\$ 10,624,689</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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$10,395,195 at the close of 2014.

The largest portion of the City's net position reflects its investment of \$8,909,176 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.

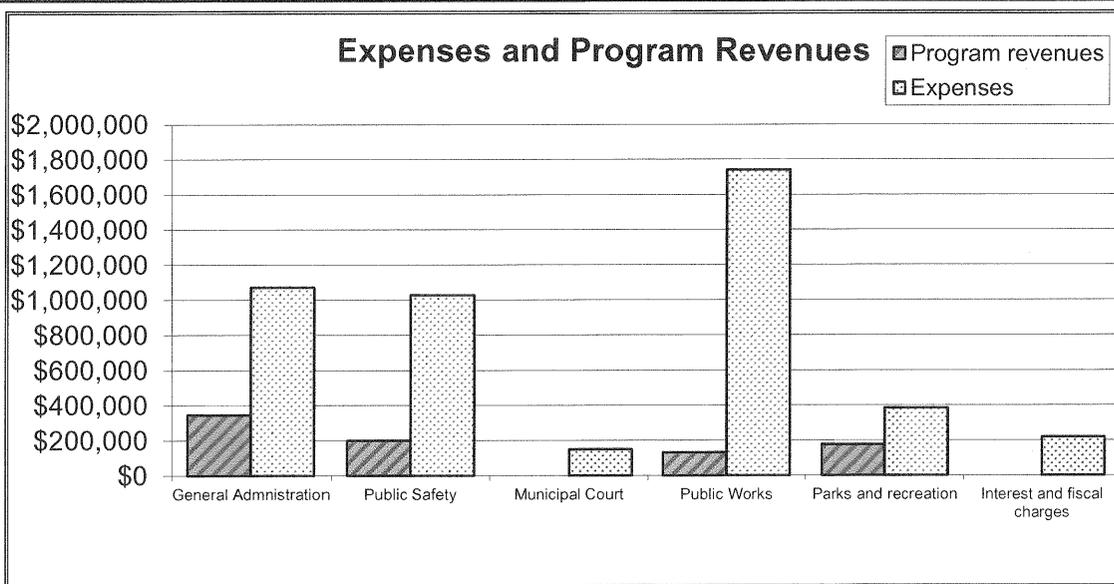
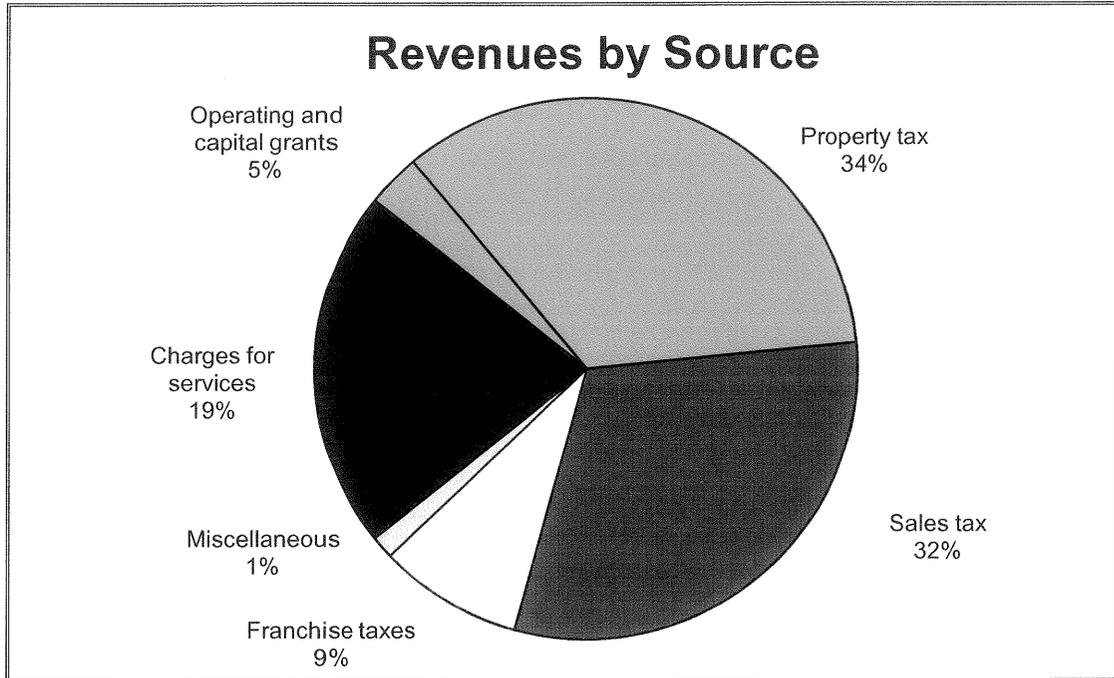
An additional \$230,701 of the City's net position represents resources that are subject to external restrictions on how they may be used. Restricted net position includes amounts from the Debt Service Fund, Capital Projects Fund and other special revenue funds.

Analysis of Changes in Net Position

	Governmental Activities	
	2014	2013
Revenues:		
Program revenues:		
Charges for services	\$ 861,926	\$ 852,744
Operating grants and contributions	120,279	117,044
Capital grants and contributions	102,070	18,429
General revenues:		
Property taxes	1,522,857	1,491,859
Sales taxes	1,425,032	1,393,075
Franchise taxes	397,025	395,750
Intergovernmental not restricted	17,652	16,943
Unrestricted investment earnings	4,272	1,002
Miscellaneous	24,316	68,384
Total revenues	<u>4,475,429</u>	<u>4,355,230</u>
Expenses:		
General administration	1,089,074	1,071,470
Public safety	1,024,865	1,029,329
Municipal court	153,542	150,127
Public works	1,804,151	1,740,066
Parks and recreation	414,724	384,136
Interest & fiscal charges	218,567	218,301
Total expenses	<u>4,704,923</u>	<u>4,593,429</u>
Change in net position	(229,494)	(238,199)
Net position - beginning of year	<u>10,624,689</u>	<u>10,862,888</u>
Net position - end of year	<u>\$ 10,395,195</u>	<u>\$ 10,624,689</u>

The City's net position decreased during the fiscal year by a total of \$229,494 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.
- Unrestricted net position increased by \$247,197 primarily due to lower than anticipated expenditures and an increase in most general 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 2014 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 2014 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 (34%) followed closely by sales tax (32%).

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 2014, the City's governmental funds reported combined ending fund balances of \$2,239,269, of which \$814,640 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 2014, the total fund balance of the General Fund was \$1,083,140. Of this, \$579,771 is assigned for subsequent year's expenditures, and \$459,420 is available to be spent at the City's discretion.

The fund balance for the City's General Fund increased by \$109,269 during the fiscal year. This was due primarily to a decrease in expenditures of approximately \$77,000 mainly in the Administration and Public Works Departments.

The Capital Projects Fund had an increase in fund balance of \$573,407, due to issuance of general obligation bonds and transfers from Special Streets and Highways and the General Fund. 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 \$19,464. This fund receives the other ½ of the revenue from the passage of the .5% sales tax as mentioned above.

Other governmental funds decreased by \$6,800 primarily due to expenditures and transfers slightly exceeding revenues.

The 2014 Sales Tax Fund receives revenues from the passage of a .5% sales tax in 2014 which are to be used to pay costs of a new public works facility and for parks and recreation capital improvements and associated debt service.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's budget was not amended during 2014; therefore, the original budget and the final budget are the same.

Variances 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 \$16,361,054 as of December 31, 2014. These capital assets include land, buildings, improvements, equipment, drainage improvements, streets and bridges.

	Capital Assets (net of depreciation)	
	Governmental Activities	
	2014	2013
Land	\$ 2,634,172	\$ 2,586,272
Construction in progress	667,482	24,872
Buildings	629,917	668,927
Improvements other than buildings	579,581	639,404
Equipment	804,982	648,232
Infrastructure	11,044,920	11,961,496
Total	<u>\$ 16,361,054</u>	<u>\$ 16,529,203</u>

Major capital activity in 2014 included pool construction of \$562,280, new police vehicles totaling \$118,721, and public works vehicles and equipment totaling \$103,851. 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, 2014 the City had total long-term bonds backed by the full faith and credit of the City outstanding of \$7,710,000. 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 increased by \$570,000 during the fiscal year due to issuance of GO Bonds 2014-A(\$1,000,000) through a private bond sale with an interest rate of 1.00%.

In January, 2010 the City received notification that Standard & Poor's assigned an '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 may acquire to 30% of their total assessed valuation. The current debt limitation for the City is \$25,356,500 leaving a debt margin of \$17,646,500

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

Outstanding Bonds		
General Obligation Bonds		
	Governmental Activities	
	2014	2013
General Obligation Bonds		
Series 2008-B	\$ -	\$ 115,000
Series 2010-A	4,020,000	4,120,000
Series 2010-B	200,000	290,000
Series 2012-A	2,490,000	2,615,000
Series 2014-A	1,000,000	-
Total	\$ 7,710,000	\$ 7,140,000

Economic Factors and Next Year's Budgets and Rates

After two years of relatively flat growth, total assessed property values for the City are projected to rise over 4% in 2015. In addition, continuing increases in building permits suggest further strengthening of the City's property tax assessment base. The factors that drive changes in both revenues and expenditures have been increasing in tandem, a prognosis for future stable mill levy rates.

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, 2014

	Governmental Activities
Assets	
Deposits and investments	\$ 1,980,706
Receivables (net of allowance for uncollectibles):	
Property taxes	1,443,614
Sales and other taxes	344,027
Intergovernmental	33,137
Other	20,898
Restricted deposits and investments	9,779
Prepaid items	43,949
Capital assets:	
Land and construction in progress	3,301,654
Other capital assets, net of depreciation	13,059,400
Total assets	20,237,164
Deferred Outflows of Resources	
Deferred amount on refunding	114,967
Total assets and deferred outflows of resources	20,352,131
Liabilities	
Accounts and retainage payable	156,644
Accrued payroll and payroll liabilities	41,752
Accrued interest payable	68,685
Court bonds payable	9,831
Long-term liabilities:	
Due within one year	664,461
Due in more than one year	7,571,949
Total liabilities	8,513,322
Deferred Inflows of resources	
Unavailable revenue	1,443,614
Net Postion	
Net investment in capital assets	8,909,176
Restricted for:	
Debt service	156,566
Capital projects	43,400
Other purposes	30,735
Unrestricted	1,255,318
Total net position	\$ 10,395,195

See the accompanying notes to the basic financial statements.

City of Fairway, Kansas
Statement of Activities
For the year ended December 31, 2014

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Change in Net Position</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Governmental activities:					
General administration	\$ 1,089,074	\$ 366,971	\$ -	\$ -	\$ (722,103)
Public safety	1,024,865	191,849	-	-	(833,016)
Municipal court	153,542	-	-	-	(153,542)
Public works	1,804,151	134,792	102,626	54,170	(1,512,563)
Parks and recreation	414,724	168,314	17,653	47,900	(180,857)
Interest and fiscal charges	218,567	-	-	-	(218,567)
Total primary government	<u>\$ 4,704,923</u>	<u>\$ 861,926</u>	<u>\$ 120,279</u>	<u>\$ 102,070</u>	<u>(3,620,648)</u>

General revenues:

Taxes:	
Property taxes, levied for general purposes	1,434,530
Property taxes, levied for debt service	88,327
Sales taxes	1,425,032
Franchise taxes	397,025
Intergovernmental not restricted to a specific program	17,652
Unrestricted investment earnings	4,272
Miscellaneous	24,316
Total general revenue	<u>3,391,154</u>
Change in net position	(229,494)
Net position-beginning of year	10,624,689
Net position-end of year	<u>\$ 10,395,195</u>

See the accompanying notes to the basic financial statements.

City of Fairway, Kansas

Balance Sheet
Governmental Funds
December 31, 2014

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:					
Deposits and investments	\$ 922,738	\$ 96,907	\$ 869,088	\$ 91,973	\$ 1,980,706
Receivables (net of allowance for uncollectibles):					
Property taxes	1,366,507	77,107	-	-	1,443,614
Sales and other taxes	247,780	24,062	24,062	48,123	344,027
Intergovernmental	1,148	-	6,250	25,739	33,137
Other	20,898	-	-	-	20,898
Due from other funds	-	-	12,948	-	12,948
Restricted deposits and investments	9,779	-	-	-	9,779
Prepaid items	43,949	-	-	-	43,949
Total assets	<u>\$ 2,612,799</u>	<u>\$ 198,076</u>	<u>\$ 912,348</u>	<u>\$ 165,835</u>	<u>\$ 3,889,058</u>
Liabilities:					
Accounts and retainage payable	\$ 98,621	\$ -	\$ 43,023	\$ -	\$ 141,644
Accrued payroll and payroll liabilities	41,752	-	-	-	41,752
Due to other funds	12,948	-	-	-	12,948
Court bonds payable	9,831	-	-	-	9,831
Total liabilities	<u>163,152</u>	<u>-</u>	<u>43,023</u>	<u>-</u>	<u>206,175</u>
Deferred inflows of resources:					
Deferred revenue	1,366,507	77,107	-	-	1,443,614
Fund balances:					
Nonspendable	43,949	-	-	-	43,949
Restricted for:					
Debt service	-	120,969	-	67,934	188,903
Capital projects	-	-	527,836	67,166	595,002
Other purposes	-	-	-	30,735	30,735
Assigned to:					
Capital projects	-	-	341,489	-	341,489
Subsequent year's expenditures	579,771	-	-	-	579,771
Unassigned	459,420	-	-	-	459,420
Total fund balances	<u>1,083,140</u>	<u>120,969</u>	<u>869,325</u>	<u>165,835</u>	<u>2,239,269</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,612,799</u>	<u>\$ 198,076</u>	<u>\$ 912,348</u>	<u>\$ 165,835</u>	<u>\$ 3,889,058</u>

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, 2014

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

Ending fund balances - total governmental funds	\$ 2,239,269
<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>	
	16,361,054
<p>Claims and judgments are recorded in the funds when due. However, they are accrued in the Statement of Net Position when the loss is probable.</p>	
	(15,000)
<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, and deferred amounts on refunding 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, 2014 are:</p>	
Deferred amount on refunding	114,967
Accrued interest payable	(68,685)
Long-term liabilities	<u>(8,236,410)</u>
Total net position of governmental activities	<u>\$ 10,395,195</u>

City of Fairway, Kansas
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended December 31, 2014

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
Revenues:					
Ad valorem taxes	\$ 1,434,530	\$ 88,327	\$ -	\$ -	\$ 1,522,857
Sales tax	1,097,044	130,027	130,027	67,934	1,425,032
Special assessments	258,466	-	-	-	258,466
Intergovernmental	17,652	-	54,170	120,279	192,101
Licenses, permits and fees	111,359	-	-	-	111,359
Franchise taxes	397,025	-	-	-	397,025
Charges for services	172,828	-	-	131,112	303,940
Fines, forfeitures and penalties	188,161	-	-	-	188,161
Use of money and property	4,179	10	83	-	4,272
Miscellaneous	8,056	-	520	-	8,576
Total revenues	<u>3,689,300</u>	<u>218,364</u>	<u>184,800</u>	<u>319,325</u>	<u>4,411,789</u>
Expenditures:					
Current:					
General administration	1,028,961	2,000	-	-	1,030,961
Public safety	1,061,811	-	-	-	1,061,811
Municipal court	152,310	-	-	-	152,310
Public works	668,378	-	-	-	668,378
Parks and recreation	371,822	-	-	6,125	377,947
Capital outlay	-	-	923,430	-	923,430
Debt service:					
Principal retirements	286,109	67,488	82,000	48,212	483,809
Interest and fiscal charges	13,759	129,412	9,817	71,788	224,776
Total expenditures	<u>3,583,150</u>	<u>198,900</u>	<u>1,015,247</u>	<u>126,125</u>	<u>4,923,422</u>
Excess (deficiency) of revenues over expenditures	<u>106,150</u>	<u>19,464</u>	<u>(830,447)</u>	<u>193,200</u>	<u>(511,633)</u>
Other financing sources (uses):					
Issuance of general obligation bonds	-	-	1,000,000	-	1,000,000
Capital leases	206,973	-	-	-	206,973
Transfers in	-	-	403,854	-	403,854
Transfers out	(203,854)	-	-	(200,000)	(403,854)
Total other financing sources (uses)	<u>3,119</u>	<u>-</u>	<u>1,403,854</u>	<u>(200,000)</u>	<u>1,206,973</u>
Net change in fund balances	109,269	19,464	573,407	(6,800)	695,340
Fund balances, beginning of year	<u>973,871</u>	<u>101,505</u>	<u>295,918</u>	<u>172,635</u>	<u>1,543,929</u>
Fund balances, end of year	<u>\$ 1,083,140</u>	<u>\$ 120,969</u>	<u>\$ 869,325</u>	<u>\$ 165,835</u>	<u>\$ 2,239,269</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, 2014

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

Net changes in fund balances - total governmental funds	\$ 695,340
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:	
Capital additions	979,032
Depreciation expense	(1,169,997)
Contributions of capital assets are reported as capital contributions in the Statement of Activities	47,900
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.	
	(25,084)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the 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 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:	
Proceeds of general obligation bonds	(1,000,000)
Capital leases	(206,973)
Principal payments	483,809
Accrued interest expense	2,013
Amortization of bond premiums	19,192
Amortization of the deferred amount on refunding	(14,996)
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:	
Claims and judgments	(15,000)
Change in compensated absences	(15,620)
Change in postemployment benefits	(9,110)
	(39,730)
Total change in net position of governmental activities	\$ (229,494)

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, 2014

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 based on the concept of financial accountability; including 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 included 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, which consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction or improvement of those assets, less \$527,836 of unspent bond proceeds; restricted, which consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation; 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, 2014

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, 2014

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 2014 Sales Tax and Tree funds were established during the year and, therefore, do not have annual operating budgets. 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 1st.
- (2) Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
- (3) Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
- (4) Adoption of the final budget on or before August 25th.

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 2014.

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, 2014**

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 inflows of resources 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, 2014. 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, 2014 is as follows:

Total deposits	\$ 1,604,052
Certificates of deposit	386,264
Petty cash	169
	\$ 1,990,485

Restricted deposits and investments consist of cash held 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 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.

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

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's policy 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, 2014, 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, 2014

Deferred outflows and inflows of resources

In addition to assets, the Statement of Net Position now reports a separate section for deferred outflows of resources. This financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, the deferred amount on refunding. A deferred amount on refunding results from the difference in the carrying value of refunded debt and its reacquisition price and is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the Statement of Net Position and balance sheets now report a separate section for deferred inflows of resources. This financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category, unavailable revenue from property taxes that will be recognized as an inflow of resources in the period for which they were levied.

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 \$108,112 for vacation leave at December 31, 2014 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 31st calendar day following a salary continuation that has been paid for by the City and may last up to 22 weeks.

Long-term Obligations

In the government-wide financial statements, long-term debt and obligations are reported in the Statement of Net Position as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs are expensed when incurred. Bonds payable are reported net of the applicable bond premium or discount. Refunding costs are deferred and amortized on a straight-line basis over the life of the new debt, or the remaining life of the old debt, whichever is shorter.

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

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

Fund Balances

In the governmental fund financial statements, fund balances are reported in the following classifications, which are primarily based on the extent to which a government is bound to observe constraints imposed upon the use of the resources.

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.

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.

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

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	\$ 47,900	\$ -	\$ 2,634,172
Construction in progress	24,872	642,610	-	667,482
Total capital assets not being depreciated	<u>2,611,144</u>	<u>690,510</u>	<u>-</u>	<u>3,301,654</u>
Capital assets being depreciated:				
Buildings	1,217,965	-	120,312	1,097,653
Improvements other than buildings	1,511,602	7,725	10,749	1,508,578
Equipment	1,816,758	328,697	346,855	1,798,600
Infrastructure	22,777,274	-	-	22,777,274
Total capital assets being depreciated	<u>27,323,599</u>	<u>336,422</u>	<u>477,916</u>	<u>27,182,105</u>
Less accumulated depreciation for:				
Buildings	549,038	33,265	114,567	467,736
Improvements other than buildings	872,198	67,548	10,749	928,997
Equipment	1,168,526	152,608	327,516	993,618
Infrastructure	10,815,778	916,576	-	11,732,354
Total accumulated depreciation	<u>13,405,540</u>	<u>\$ 1,169,997</u>	<u>\$ 452,832</u>	<u>14,122,705</u>
Total capital assets being depreciated, net	<u>13,074,773</u>			<u>13,059,400</u>
Governmental activities capital assets, net	<u>\$ 15,685,917</u>			<u>\$ 16,361,054</u>

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

General administration	\$ 49,876
Public safety	102,051
Public works	966,139
Parks and recreation	51,931
Total depreciation expense	<u>\$ 1,169,997</u>

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.

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

Note 4: Long-term Debt

The following is a summary of changes in long-term debt for the year ended December 31, 2014:

	Balance January 1, 2014			Balance December 31, 2014		Amounts Due Within One Year
		Increases	Decreases			
General obligation bonds	\$ 7,140,000	\$ 1,000,000	\$ 430,000	\$ 7,710,000	\$ 480,000	
Unamortized premium	178,489	-	19,192	159,297	19,192	
Capital leases	72,220	206,973	53,809	225,384	80,048	
Compensated absences*	92,492	97,464	81,844	108,112	85,221	
Postemployment benefits	24,507	9,110	-	33,617	-	
Total governmental activities debt	<u>\$ 7,507,708</u>	<u>\$ 1,313,547</u>	<u>\$ 584,845</u>	<u>\$ 8,236,410</u>	<u>\$ 664,461</u>	

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

General obligation bonds outstanding at December 31, 2014 are as follows:

	Date Issued	Interest Rates	Original Amount	Maturity Date	Outstanding December 31, 2014
Internal improvements:					
Series 2010 A	1/15/10	2 - 4%	\$ 4,470,000	9/1/29	\$ 4,020,000
Series 2010 B	12/15/10	2 - 3%	310,000	9/1/18	200,000
Series 2012 A	12/15/12	2%	2,670,000	9/1/22	2,490,000
Series 2014 A	10/30/14	1%	1,000,000	9/1/34	1,000,000
			<u>\$ 8,450,000</u>		<u>\$ 7,710,000</u>

The annual debt service requirements to amortize the general obligation bonds outstanding as of December 31, 2014 are as follows:

Year	Principal	Interest	Total
2015	\$ 480,000	\$ 209,399	\$ 689,399
2016	490,000	200,888	690,888
2017	500,000	190,313	690,313
2018	510,000	179,450	689,450
2019	515,000	168,200	683,200
2020 - 2024	2,415,000	664,490	3,079,490
2025 - 2029	2,525,000	294,389	2,819,389
2030 - 2034	275,000	8,250	283,250
Total	<u>\$ 7,710,000</u>	<u>\$ 1,915,379</u>	<u>\$ 9,625,379</u>

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

On October 30, 2014 the City issued \$1,000,000 of Series 2014-A General Obligation Bonds to finance swimming pool improvements. The bonds carry an interest rate of 1% and are due in annual installments through September 2034. In connection with the public approval of the bond issue, an additional one-half cent sales tax was authorized to provide for the debt service on these bonds, and if any additional revenues are available, to pay costs of the project.

The City has entered into two capital leases to finance the purchase of vehicles and equipment with a cost of \$328,102 at interest rates of 2.09% and .78%, with payments due in semi-annual installments through 2018. The future minimum lease obligations and the net present value of these minimum lease payments as of December 31, 2014 are as follows:

2015	\$ 83,550
2016	68,650
2017	53,750
2018	<u>26,875</u>
	232,825
Less imputed interest	<u>(7,441)</u>
Present value of minimum lease payments	<u><u>\$ 225,384</u></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 \$25,356,500, leaving a debt margin of \$17,646,500.

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 5% of covered salary. K.S.A. 74-4975 establishes the KP&F member-employee contribution rate at 7.15% 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 2014 is 8.925%. The City’s employer contributions to KPERS for the years ended December 31, 2014, 2013, and 2012 were \$57,661, \$48,109 and \$44,541, respectively, equal to the statutory required contributions for each year. The KP&F uniform participating

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

employer rate established for fiscal year 2014 is 19.92%. 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, 2014, 2013, and 2012 were \$117,013, \$103,820 and \$97,386, 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 2014.

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.

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.

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

For the year ended December 31, 2014, the components of the annual OPEB cost are as follows:

Normal cost	\$5,964
Amortization of unfunded liability	<u>3,483</u>
Annual required contribution	9,447
Interest on net OPEB obligation	1,103
Adjustment to the ARC	<u>(1,440)</u>
Annual OPEB cost	<u>\$9,110</u>

The schedule of employer contributions for the year ended December 31, 2014 is as follows:

<u>Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Estimated</u> <u>Retiree Benefits</u> <u>For the Year</u> *	<u>Percentage</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2012	\$ 7,559	\$ 5,000	66.2%	\$ 19,979
2013	7,528	3,000	39.9%	24,507
2014	9,110	-	-0- %	33,617

* Contribution related to implicit rate subsidy.

Funded Status and Funding Progress - As of July 1, 2013, which represents the most recent actuarial valuation date, the actuarial accrued liability for benefits within the plan for the City is \$55,507. 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 \$1,102,887, which results in a ratio of the unfunded actuarial accrued liability (UAAL) to the covered payroll of 5 %.

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.

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual healthcare cost trend rate of 7% 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, 2014 are as follows:

	Transfers In	Transfers Out
General fund	\$ -	\$ 203,854
Capital projects fund	403,854	-
Special Highway fund	-	200,000
	\$ 403,854	\$ 403,854

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.

Note 7: Commitments and Contingencies

Litigation

The City is subject to various legal actions and claims arising in the normal course of its activities. 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. In 2015, the lease term was extended until December 2017. For 2014, the lease expenditures under this lease were \$ 87,988. The future minimum rental payments are as follows:

2015	\$ 63,355
2016	85,104
2017	87,764
	\$ 236,223

City of Fairway, Kansas
Notes to the Basic Financial Statements
December 31, 2014

Sales Tax Reimbursement Agreement

In 2011, the City agreed to reimburse a portion of its 1% general sales tax generated by a new business in order to assist it in offsetting a portion of its cost of renovating and equipping its new location. The agreement limits the reimbursement to a maximum of \$40,000 over its five year term, payable on an annual basis solely from the sales tax generated by the taxpayer. As of December 31, 2014, \$21,559 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, including pool improvements and the acquisition of a public works facility.

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.

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.

Note 9: Subsequent Events

In January 2015 the City entered into an \$850,000 lease purchase agreement to finance the acquisition of a new public works facility. The lease carries an interest rate of 2.25% and payments are due in annual installments of \$50,107 through September 2024.

In February 2015 the City issued \$2,100,000 of Series 2015-A General Obligation Bonds with interest rates ranging from 1% to 3% and a maturity date of September 2034, to finance the construction of improvements to the swimming pool and new public works facility.

**Required
Supplementary
Information**

City of Fairway, Kansas

Required Supplementary Information
 Budgetary Comparison Schedule - General Fund
 (Non-GAAP Basis)
 For the year ended December 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 1,422,897	\$ 1,422,897	\$ 1,434,530	\$ 11,633
Sales tax	1,057,707	1,057,707	1,097,044	39,337
Special assessments	255,683	255,683	258,466	2,783
Intergovernmental	15,700	15,700	17,652	1,952
Licenses, permits and fees	86,250	86,250	111,359	25,109
Franchise taxes	370,000	370,000	397,025	27,025
Charges for services	174,000	174,000	172,828	(1,172)
Fines, forfeitures and penalties	380,600	380,600	188,161	(192,439)
Use of money and property	1,500	1,500	4,179	2,679
Miscellaneous	9,000	9,000	8,056	(944)
Total revenues	<u>3,773,337</u>	<u>3,773,337</u>	<u>3,689,300</u>	<u>(84,037)</u>
Expenditures:				
Current:				
General administration	1,302,270	1,302,270	1,159,136	143,134
Public safety	1,101,640	1,101,640	966,119	135,521
Municipal court	170,293	170,293	152,310	17,983
Public works	800,203	800,203	726,790	73,413
Parks and recreation	395,331	395,331	371,822	23,509
Contingency	373,093	373,093	-	373,093
Total expenditures	<u>4,142,830</u>	<u>4,142,830</u>	<u>3,376,177</u>	<u>766,653</u>
Excess (deficiency) of revenues over expenditures	(369,493)	(369,493)	313,123	682,616
Other financing uses:				
Transfers out	(59,607)	(59,607)	(203,854)	(144,247)
Net change in fund balance	(429,100)	(429,100)	109,269	<u>\$ 538,369</u>
Fund balance, beginning of year	<u>429,100</u>	<u>429,100</u>	<u>973,871</u>	
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,083,140</u>	

City of Fairway, Kansas

Schedule of Funding Progress - Other Postemployment Benefit Obligations For the year ended December 31, 2014

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
7/1/09	\$ -	\$ 48,270	\$ 48,270	0%	\$ 1,130,646	4.3%
7/1/11	\$ -	\$ 46,597	\$ 46,597	0%	\$ 1,002,283	4.6%
7/1/13	\$ -	\$ 55,507	\$ 55,507	0%	\$ 1,102,887	5.0%

City of Fairway, Kansas
Notes to Required Supplementary Information
December 31, 2014

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 the principal amount of asset acquisitions financed by capital leases are shown as an expenditure, yet are excluded for budgetary purposes. 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>Expenditures</u>	
General Fund - budgetary basis	\$ 3,376,177
Capital lease acquisitions:	
Public safety	118,721
Public works	88,252
GAAP basis	<u>\$ 3,583,150</u>

**Combining and
Individual Fund
Statements
and
Schedules**

City of Fairway, Kansas
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2014

	<u>Special Highway</u>	<u>Storm Water Utility</u>	<u>L.A.L. Park</u>	<u>Drug Tax</u>	<u>Tree Fund</u>	<u>2014 Sales Tax</u>	<u>Totals</u>
Assets:							
Deposits and investments	\$ 6,163	\$ 35,264	\$ 25,244	\$ 1,891	\$ 3,600	\$ 19,811	\$ 91,973
Receivables, net:							
Sales and other taxes	-	-	-	-	-	48,123	48,123
Intergovernmental	25,739	-	-	-	-	-	25,739
	<u>31,902</u>	<u>35,264</u>	<u>25,244</u>	<u>1,891</u>	<u>3,600</u>	<u>67,934</u>	<u>165,835</u>
Total assets	<u>\$ 31,902</u>	<u>\$ 35,264</u>	<u>\$ 25,244</u>	<u>\$ 1,891</u>	<u>\$ 3,600</u>	<u>\$ 67,934</u>	<u>\$ 165,835</u>
Liabilities							
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balances:							
Restricted for:							
Debt service	-	-	-	-	-	67,934	67,934
Public safety	-	-	-	1,891	-	-	1,891
Public works	-	-	-	-	3,600	-	3,600
Capital projects	31,902	35,264	-	-	-	-	67,166
Parks and recreation	-	-	25,244	-	-	-	25,244
	<u>31,902</u>	<u>35,264</u>	<u>25,244</u>	<u>1,891</u>	<u>3,600</u>	<u>67,934</u>	<u>165,835</u>
Total fund balances	<u>31,902</u>	<u>35,264</u>	<u>25,244</u>	<u>1,891</u>	<u>3,600</u>	<u>67,934</u>	<u>165,835</u>
Total liabilities and fund balances	<u>\$ 31,902</u>	<u>\$ 35,264</u>	<u>\$ 25,244</u>	<u>\$ 1,891</u>	<u>\$ 3,600</u>	<u>\$ 67,934</u>	<u>\$ 165,835</u>

City of Fairway, Kansas
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances - Nonmajor Governmental Funds
For the year ended December 31, 2014

	Special Highway	Storm Water Utility	L.A.L. Park	Drug Tax	Tree Fund	2014 Sales Tax	Totals
Revenues:							
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 67,934	\$ 67,934
Intergovernmental	102,626	-	17,653	-	-	-	120,279
Charges for services	-	127,512	-	-	3,600	-	131,112
Total revenues	<u>102,626</u>	<u>127,512</u>	<u>17,653</u>	<u>-</u>	<u>3,600</u>	<u>67,934</u>	<u>319,325</u>
Expenditures:							
Parks and recreation	-	-	6,125	-	-	-	6,125
Debt service:							
Principal retirements	-	48,212	-	-	-	-	48,212
Interest and fiscal charges	-	71,788	-	-	-	-	71,788
Total expenditures	<u>-</u>	<u>120,000</u>	<u>6,125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>126,125</u>
Excess (deficiency) of revenues over expenditures	102,626	7,512	11,528	-	3,600	67,934	193,200
Other financing uses:							
Transfers out	<u>(200,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(200,000)</u>
Net change in fund balances	(97,374)	7,512	11,528	-	3,600	67,934	(6,800)
Fund balance, beginning of year	<u>129,276</u>	<u>27,752</u>	<u>13,716</u>	<u>1,891</u>	<u>-</u>	<u>-</u>	<u>172,635</u>
Fund balance, end of year	<u>\$ 31,902</u>	<u>\$ 35,264</u>	<u>\$ 25,244</u>	<u>\$ 1,891</u>	<u>\$ 3,600</u>	<u>\$ 67,934</u>	<u>\$ 165,835</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ 102,770	\$ 102,770	\$ 102,626	\$ (144)
Expenditures:				
Public works	<u>6,539</u>	<u>6,539</u>	<u>-</u>	<u>6,539</u>
Excess of revenues over (under) expenditures	96,231	96,231	102,626	6,395
Other financing uses:				
Transfers out	<u>(200,000)</u>	<u>(200,000)</u>	<u>(200,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ (103,769)</u>	<u>\$ (103,769)</u>	<u>(97,374)</u>	<u>\$ 6,395</u>
Fund balance, beginning of year			<u>129,276</u>	
Fund balance, end of year			<u>\$ 31,902</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, 2014

	<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>\$ 127,512</u>	<u>\$ 7,512</u>
Expenditures:				
Public works	25,388	25,388	-	25,388
Debt service	<u>120,000</u>	<u>120,000</u>	<u>120,000</u>	<u>-</u>
Total expenditures	<u>145,388</u>	<u>145,388</u>	<u>120,000</u>	<u>25,388</u>
Net change in fund balance	<u>\$ (25,388)</u>	<u>\$ (25,388)</u>	7,512	<u>\$ 32,900</u>
Fund balance, beginning of year			<u>27,752</u>	
Fund balance, end of year			<u>\$ 35,264</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Intergovernmental	\$ 15,700	\$ 15,700	\$ 17,653	\$ 1,953
Expenditures:				
Parks and recreation	<u>20,890</u>	<u>20,890</u>	<u>6,125</u>	<u>14,765</u>
Net change in fund balance	<u>\$ (5,190)</u>	<u>\$ (5,190)</u>	11,528	<u>\$ 16,718</u>
Fund balance, beginning of year			<u>13,716</u>	
Fund balance, end of year			<u>\$ 25,244</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 87,398	\$ 87,398	\$ 88,327	\$ 929
Sales taxes	108,322	108,322	130,027	21,705
Use of money and property	-	-	10	10
Total revenues	<u>195,720</u>	<u>195,720</u>	<u>218,364</u>	<u>22,644</u>
Expenditures:				
Debt service	196,900	196,900	196,900	-
Contingency	<u>50,198</u>	<u>50,198</u>	<u>2,000</u>	<u>48,198</u>
Total expenditures	<u>247,098</u>	<u>247,098</u>	<u>198,900</u>	<u>48,198</u>
Net change in fund balance	<u>\$ (51,378)</u>	<u>\$ (51,378)</u>	19,464	<u>\$ 70,842</u>
Fund balance, beginning of year			<u>101,505</u>	
Fund balance, end of year			<u>\$ 120,969</u>	