

***CITY OF SUNSET HILLS, MISSOURI***

***FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2015***

# ***CITY OF SUNSET HILLS, MISSOURI***

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## INDEPENDENT AUDITOR'S REPORT



The Honorable Mayor and Members  
of the Board of Aldermen  
*CITY OF SUNSET HILLS, MISSOURI*

We have audited the accompanying financial statements of the governmental activities, each major fund, and aggregate remaining fund information of the City of Sunset Hills, Missouri, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **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 auditors' 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 aggregate remaining fund information of the City of Sunset Hills, Missouri, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As described in Note 13 to the financial statements, in 2015, the City adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedules of pension information and budgetary comparison information on pages 3 through 8 and 34 through 38 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.



St. Charles, Missouri  
June 24, 2016

**CITY OF SUNSET HILLS, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2015**

The discussion and analysis of the City of Sunset Hills' financial performance provides an overview and analysis of the City's financial activities for the fiscal year ended December 31, 2015. It should be read in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The City's net position increased \$4,890,435 to \$26,723,392.
- Two major road projects were in process at year end totaling \$867,961, for both Kennerly and West Watson Roads.
- Major capital expenditures included park improvements of \$167,616, purchase of a bucket truck by public works for \$101,537, and the purchase of an emergency generator by police for \$88,920.

**REPORT LAYOUT**

The report consists of the Management's Discussion and Analysis (MD&A), government-wide statements, fund financial statements, notes to the financial statements, and required supplementary information. The first group of statements is highly condensed and presents a government-wide view of the City's finances. Within this view, all City operations are categorized and reported as either governmental or business-type activities. Governmental activities include basic services such as police, public works, parks and recreation, pool, municipal courts, and general government administration. The City currently does not have any business-type activities. These government-wide statements are designed to be more corporate-like in that all activities are consolidated into a total for the City.

**Basic Financial Statements**

The Statement of Net Position focuses on resources available for future operation. In simple terms, this statement presents a snap-shot view of the assets the community owns, the liabilities it owes and the net difference. The net difference is further separated into amounts restricted for specific purposes and unrestricted amounts. The Statement of Net Position reflects capital assets including infrastructure and long-term liabilities and reports governmental activities on the accrual basis of accounting.

The Statement of Activities focuses gross and net costs of city programs and the extent to which such programs rely upon general tax and other revenues. This statement summarizes and simplifies the user's analysis to determine the extent to which programs are self-supporting and/or subsidized by general revenues.

Fund financial statements focus separately on major governmental funds. Governmental fund statements follow the more traditional presentation of financial statements. The City's major governmental funds are presented in their own column and the remaining funds are combined into a column titled "Non-major". Budgetary comparisons for the General Fund and major special revenue funds are presented as required supplementary information. A budgetary comparison is presented for the General Fund, County Road Fund, and Storm Water/Parks Fund.

The notes to the financial statements provide additional disclosures required by governmental accounting standards and provide information to assist the reader in understanding the City's financial condition.

## THE CITY AS A WHOLE

### Government-wide Financial Analysis

The City's net position was \$26,723,392 as of December 31, 2015. This analysis focuses on the net position (Table 1) and changes in general revenues and significant expenses (Table 2) of the City's governmental activities.

The City's net position consists of its investment in capital assets (e.g., land, buildings and improvements, vehicles and equipment, and infrastructure) less any related debt used to acquire those assets that is still outstanding and unrestricted balances. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Table 1**

	2015	2014	Increase (Decrease)
Current and other assets	\$ 16,104,785	\$ 12,976,496	\$ 3,128,289
Capital assets	21,885,049	21,574,227	310,822
Total assets	<u>37,989,834</u>	<u>34,550,723</u>	<u>3,439,111</u>
Deferred outflows	784,666	-	784,666
Current and other liabilities	347,651	763,284	(415,633)
Long-term liabilities	11,022,145	11,954,482	(932,337)
Total liabilities	<u>11,369,796</u>	<u>12,717,766</u>	<u>(1,347,970)</u>
Deferred inflows	681,312	-	681,312
Net position:			
Net investment in capital assets	11,968,383	11,255,028	713,355
Restricted	5,735,607	5,533,971	201,636
Unrestricted	9,019,402	5,043,958	3,975,444
Total net position	<u>\$ 26,723,392</u>	<u>\$ 21,832,957</u>	<u>\$ 4,890,435</u>

Net position increased by \$1,613,444 as a result of revenues exceeding expenses during 2015 as reflected in the following table.

**Government-wide Financial Analysis - continued**

**Table 2**

	2015	2014	Increase (Decrease)
Revenues:			
Program revenues:			
Charges for service	\$ 2,073,742	\$ 2,163,943	\$ (90,201)
Capital grants and contributions	562,014	470,218	91,796
General revenues:			
Taxes:			
Sales	4,932,346	4,731,752	200,594
Utility	1,881,866	1,872,055	9,831
Property	205,298	184,545	20,753
Franchise	141,182	135,024	6,158
Intergovernmental	710,355	691,805	18,550
Investment income	114,479	(49,424)	163,903
Miscellaneous	14,702	27,946	(13,244)
Total revenues	<u>10,635,984</u>	<u>10,227,864</u>	<u>408,120</u>
Expenses:			
General government	518,168	657,193	(139,025)
Public works	2,146,824	2,553,465	(406,641)
Public safety	3,055,943	3,238,179	(182,236)
Municipal court	210,463	210,227	236
Park and recreation	2,094,004	1,942,492	151,512
Pool	513,740	523,460	(9,720)
Interest and fiscal charges	483,398	501,228	(17,830)
Total expenses	<u>9,022,540</u>	<u>9,626,244</u>	<u>(603,704)</u>
Increase in net position	1,613,444	601,620	1,011,824
Prior period adjustment	3,276,991	-	3,276,991
Net position, beginning of year	21,832,957	21,231,337	601,620
Net position, end of year	<u>\$ 26,723,392</u>	<u>\$ 21,832,957</u>	<u>\$ 4,890,435</u>

Total revenues for 2015 increased \$408,120 from total revenues in 2014. There was an increase of \$255,866 in taxes which was mainly a result of sales tax collections. There was an increase of \$163,903 in interest income for 2015 compared to 2014, due to the City moving funds previously held in money market accounts to Government secured investments, which provided a much improved return on investments, as well as an increase in the fair market value of investment.

The majority of the decrease in expenditures was public works related and is a result of the two main road projects, West Watson and Kennerly, being deferred into 2016 due to project timing. Overall expenses also reflect a decrease for this year as a result of the adjustment under the new pension accounting standards. The increase in parks and recreation were repair and improvement related.

## Governmental Funds

The following table presents the amount of revenues from various sources for all governmental funds on the modified accrual basis of accounting.

**Table 3**

	Fiscal Year Ending 2015	Fiscal Year Ending 2014	Increase (Decrease)	Percentage Change
Taxes	\$ 7,144,777	\$ 6,926,552	\$ 218,225	3.2 %
Intergovernmental	710,355	691,805	18,550	2.7
Licenses and permits	909,395	1,033,792	(124,397)	(12.0)
Fines and court costs	396,538	369,835	26,703	7.2
Investment income	114,479	(42,651)	157,130	368.4
Charges for service	767,809	760,316	7,493	1.0
Grants	562,014	470,218	91,796	19.5
Miscellaneous	14,702	27,946	(13,244)	(47.4)
Total general revenues	\$ <u>10,620,069</u>	\$ <u>10,237,813</u>	\$ <u>382,256</u>	

Approximately 67% of the revenue in the governmental funds comes from taxes, which include sales, property, utility and tax. Investment income increased \$157,130 from the prior year, mainly due to moving funds previously held in money market accounts to Government secured investments, which had more favorable rates resulting in additional interest revenues and an unrealized gain on investments held at year-end. Licenses and permits decreased \$124,397 from the prior year, mainly due to a combination of a one-time permit fee paid in 2014 for an expansion project and reclassification of a business's fee type from a percentage of gross sales to square footage.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of the fiscal year 2015, the City had \$29,721,905 invested in a broad range of capital assets, including police and public works equipment, buildings, park facilities, and roads (see Table 4 below). This amount represents a net increase (including additions and deductions) of \$1,188,246 or 4.2% over the prior fiscal year.

**Table 4**

	2015	2014
Land	\$ 1,555,549	\$ 1,555,549
Construction in progress	985,134	187,019
Land improvements	1,982,826	1,843,847
Buildings and improvements	13,596,410	13,419,953
Vehicles and equipment	3,221,225	3,146,530
Infrastructure	8,380,761	8,380,761
Total	\$ <u>29,721,905</u>	\$ <u>28,533,659</u>

The most significant changes to capital assets this fiscal year related to construction in progress on two road projects. More detailed information on the City’s capital assets is presented in the notes to the financial statements.

**DEBT**

At year-end, the City had \$11,145,000 in outstanding debt compared to \$11,750,000 at the end of the prior fiscal year. The decrease was due to the City making required scheduled debt payments during the year.

**Table 5**

	<u>2015</u>	<u>2014</u>
Certificate of Participation	\$ 11,145,000	\$ 11,750,000

During the fiscal year, the City made principal payments totaling \$605,000. More detailed information on the City’s long-term liabilities is presented in the notes to the financial statements.

**THE CITY’S FUNDS**

At the close of the City’s fiscal year on December 31, 2015, the governmental funds of the City reported a combined fund balance of \$12,722,040. This ending balance includes an increase in fund balance of \$233,950 in the City’s General Fund. It is the City’s policy to maintain the General Fund balance within a range of 30% to 50% of the greater of prior year operating expense or revenue, excluding grant revenues. At December 31, 2015, the unassigned fund balance in the General Fund was 94% of 2015 revenues excluding grants.

**General Fund Budgetary Highlights**

The City prepares its budget on a cash basis.

For 2015, actual revenues in the General Fund on a budgetary basis were \$7,934,089 compared to the budget amount of \$7,780,012. The City’s original budget was amended to reduce grant revenue awarded after the budget was passed.

For 2015, actual expenditures in the General Fund on a budgetary basis were \$7,878,625 compared to the budget amount of \$9,237,350. There were almost no changes to the original budgeted expenditures.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The 2016 general fund budget includes a 9.7% increase in revenues and a 4.1% decrease in expenditures in comparison to the 2015 final budget. The increase in revenue can be attributed to an increase in sales, vehicle, and other utility taxes, as well as an increase in business licenses. Decrease in expenditures can be attributed to a decrease in capital expenditures with the road projects expected completion.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives.

If you have questions about this report or need additional financial information, contact:

Finance Officer  
City of Sunset Hills, Missouri Finance Department  
3939 South Lindbergh Boulevard  
Sunset Hills, Missouri 63127

**CITY OF SUNSET HILLS, MISSOURI**

STATEMENT OF NET POSITION

DECEMBER 31, 2015

	Governmental Activities
<b>ASSETS</b>	
Cash and investments	\$ 10,575,257
Receivables:	
Property tax	87,106
Other tax	1,388,151
Interest	22,691
Other	66,334
Cash and investments - restricted	1,105,479
Prepaid expenses	49,697
Net pension asset	2,810,070
Capital assets - net	
Nondepreciable	2,540,683
Depreciable	19,344,366
<b>TOTAL ASSETS</b>	<b>37,989,834</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred amounts related to pensions	784,666
<b>LIABILITIES</b>	
Accounts payable	17,638
Accrued wages and vacation	118,651
Deposits payable	5,912
Accrued interest payable	156,759
Other liabilities	48,691
Noncurrent liabilities:	
Due in one year	625,000
Due in more than one year	10,397,145
<b>TOTAL LIABILITIES</b>	<b>11,369,796</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred amounts related to pensions	389,426
Unearned revenue - business licenses	291,886
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>681,312</b>
<b>NET POSITION</b>	
Net investment in capital assets	11,968,383
Restricted:	
Debt Service	1,111,052
Storm water and parks	3,197,149
Capital projects	1,403,556
Police	17,412
Swim / Dive team	6,438
Unrestricted	9,019,402
<b>TOTAL NET POSITION</b>	<b>\$ 26,723,392</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF SUNSET HILLS, MISSOURI**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

<b>Functions/Programs</b>	Expenses	Program Revenue		Net (Expense) Revenue and Change in Net Position
		Charges for Services	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
General government	\$ 518,168	\$ 878,928	\$ -	\$ 360,760
Public works	2,146,824	36,624	544,754	(1,565,446)
Public safety	3,055,943	409,263	-	(2,646,680)
Municipal court	210,463	-	-	(210,463)
Parks and recreation	2,094,004	478,007	17,260	(1,598,737)
Pool	513,740	270,920	-	(242,820)
Interest and fiscal charges	483,398	-	-	(483,398)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 9,022,540</b>	<b>\$ 2,073,742</b>	<b>\$ 562,014</b>	<b>(6,386,784)</b>
Taxes:				
Sales				4,932,346
Utility				1,881,866
Property				205,298
Franchise				141,182
Intergovernmental				710,355
Investment income				114,479
Other miscellaneous revenue				14,702
<b>TOTAL GENERAL REVENUES</b>				<b>8,000,228</b>
<b>CHANGE IN NET POSITION</b>				<b>1,613,444</b>
<b>NET POSITION - BEGINNING OF YEAR, RESTATED</b>				<b>25,109,948</b>
<b>NET POSITION - END OF YEAR</b>				<b>\$ 26,723,392</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF SUNSET HILLS, MISSOURI**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2015**

	General Fund	Capital Projects Fund	County Road Fund	Storm Water/ Parks Fund	Debt Service Fund	Total
<b>ASSETS</b>						
Cash and investments	\$ 6,471,850	\$ 887,380	\$ 228,841	\$ 2,987,186	\$ -	\$ 10,575,257
Receivables:						
Property tax	87,106	-	-	-	-	87,106
Other tax	822,736	182,267	168,742	214,406	-	1,388,151
Interest	17,118	-	-	-	5,573	22,691
Other	66,334	-	-	-	-	66,334
Due from other funds	63,087	-	-	-	-	63,087
Cash and investments - restricted	-	-	-	-	1,105,479	1,105,479
Prepaid items	49,697	-	-	-	-	49,697
<b>TOTAL ASSETS</b>	<u>\$ 7,577,928</u>	<u>\$ 1,069,647</u>	<u>\$ 397,583</u>	<u>\$ 3,201,592</u>	<u>\$ 1,111,052</u>	<u>\$ 13,357,802</u>
<b>LIABILITIES</b>						
Account payable	\$ 14,958	\$ -	\$ -	\$ 2,680	\$ -	\$ 17,638
Accrued wages and vacation	118,651	-	-	-	-	118,651
Due to other funds	-	61,324	-	1,763	-	63,087
Deposits payable	3,562	2,350	-	-	-	5,912
Other liabilities	48,691	-	-	-	-	48,691
<b>TOTAL LIABILITIES</b>	<u>185,862</u>	<u>63,674</u>	<u>-</u>	<u>4,443</u>	<u>-</u>	<u>253,979</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue	320,875	-	60,908	-	-	381,783
<b>FUND BALANCES</b>						
Nonspendable:						
Reserved for prepaid items	49,697	-	-	-	-	49,697
Restricted:						
Capital projects fund	-	1,005,973	-	-	-	1,005,973
County road fund	-	-	336,675	-	-	336,675
Storm water / parks fund	-	-	-	3,197,149	-	3,197,149
Debt service	-	-	-	-	1,111,052	1,111,052
Police department training	13,581	-	-	-	-	13,581
Drug forfeiture	3,831	-	-	-	-	3,831
Swim / dive team	6,438	-	-	-	-	6,438
Assigned:						
Landscaping memorial	2,659	-	-	-	-	2,659
Pool concession	45,517	-	-	-	-	45,517
Unassigned	6,949,468	-	-	-	-	6,949,468
<b>TOTAL FUND BALANCES</b>	<u>7,071,191</u>	<u>1,005,973</u>	<u>336,675</u>	<u>3,197,149</u>	<u>1,111,052</u>	<u>12,722,040</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 7,577,928</u>	<u>\$ 1,069,647</u>	<u>\$ 397,583</u>	<u>\$ 3,201,592</u>	<u>\$ 1,111,052</u>	<u>\$ 13,357,802</u>

The accompanying notes are an integral part of these financial statements.

***CITY OF SUNSET HILLS, MISSOURI***  
**RECONCILIATION OF THE STATEMENT OF NET POSITION**  
**OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET**  
**AS OF DECEMBER 31, 2015**

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balance per balance sheet	\$ 12,722,040
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,885,049
The net pension asset reported in governmental activities is not a financial resource and therefore is not reported in the funds.	2,810,070
Receivables not collected in the current period are not available to pay current expenditures and, therefore, are deferred in the funds.	89,897
Certain deferred outflows and inflows of resources represent a consumption or acquisition of net position in a future period and therefore are not reported in the funds.	
Deferred outflows of resources	784,666
Deferred inflows of resources	(389,426)
Certificates of participation discounts, net of accumulated amortization, are deferred and reported with the related debt in the statement of net position.	122,855
Interest payable recorded in the statement of net position does not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(156,759)
Long-term liabilities, including certificates of participation and net pension obligations are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(11,145,000)</u>
Net position of governmental activities	<u><u>\$ 26,723,392</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF SUNSET HILLS, MISSOURI**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	General Fund	Capital Projects Fund	County Road Fund	Storm Water/ Parks Fund	Debt Service Fund	Total
<b>REVENUES</b>						
Taxes	\$4,885,955	\$ 1,037,861	\$ -	\$ 1,220,961	\$ -	\$ 7,144,777
Intergovernmental	357,517	-	352,838	-	-	710,355
Licenses	909,395	-	-	-	-	909,395
Fines and court costs	396,538	-	-	-	-	396,538
Investment income	99,330	-	-	652	14,497	114,479
Charges for service	767,809	-	-	-	-	767,809
Grants	562,014	-	-	-	-	562,014
Miscellaneous	14,702	-	-	-	-	14,702
<b>TOTAL REVENUES</b>	<u>7,993,260</u>	<u>1,037,861</u>	<u>352,838</u>	<u>1,221,613</u>	<u>14,497</u>	<u>10,620,069</u>
<b>EXPENDITURES</b>						
Current:						
General government	485,732	-	-	-	-	485,732
Public works	1,300,528	9,864	-	-	-	1,310,392
Public safety	2,343,637	-	-	-	-	2,343,637
Municipal court	185,409	-	-	-	-	185,409
Parks and recreation	1,281,088	35,088	-	67,096	-	1,383,272
Pool	268,685	-	-	-	-	268,685
Non-departmental	1,234,125	-	-	-	-	1,234,125
Capital outlay	660,106	988,257	154,830	101,273	-	1,904,466
Debt service:						
Principal, interest and fiscal charges	-	-	-	-	1,084,351	1,084,351
<b>TOTAL EXPENDITURES</b>	<u>7,759,310</u>	<u>1,033,209</u>	<u>154,830</u>	<u>168,369</u>	<u>1,084,351</u>	<u>10,200,069</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	233,950	4,652	198,008	1,053,244	(1,069,854)	420,000
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfer in (out)	-	-	-	(542,209)	542,209	-
<b>NET CHANGE IN FUND BALANCE</b>	233,950	4,652	198,008	511,035	(527,645)	420,000
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>6,837,241</u>	<u>1,001,321</u>	<u>138,667</u>	<u>2,686,114</u>	<u>1,638,697</u>	<u>12,302,040</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$7,071,191</u>	<u>\$ 1,005,973</u>	<u>\$ 336,675</u>	<u>\$ 3,197,149</u>	<u>\$ 1,111,052</u>	<u>\$12,722,040</u>

The accompanying notes are an integral part of these financial statements.

***CITY OF SUNSET HILLS, MISSOURI***  
**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, 2015**

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

Change in fund balance-total governmental funds	\$	420,000
Revenues that do not provide current financial resources are not included in the fund financial statements.		15,915
The acquisition of capital assets requires the use of current financial resources but has no effect on net position.		1,388,863
The proceeds from the disposal of capital assets is revenue in the governmental funds and the gain or loss on the disposal is recorded in the statement of activities.		(2,409)
The cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense in the statement of activities.		(1,075,632)
Expenses related to providing pension benefits are reported using a different measurement focus in the statement of activities compared to the the governmental fund statements. Expenditures in the governmental fund exceed the expense reported in the statement of activities.		265,754
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		605,000
Some expenses do not require the use of current financial resources and, therefore, are not reported as an expenditure in governmental funds:		
Accrued interest		6,050
Amortization of discounts on the issuance of debt		(10,097)
		(4,047)
Change in net position of the statement of activities	\$	1,613,444

The accompanying notes are an integral part of these financial statements.

**CITY OF SUNSET HILLS, MISSOURI**  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
AGENCY FUND  
DECEMBER 31, 2015

**ASSETS**

**CURRENT ASSETS**

Cash and investments

\$ 164,522

**LIABILITIES**

**CURRENT LIABILITIES**

Funds held in escrow

\$ 164,522

The accompanying notes are an integral part of these financial statements.

**CITY OF SUNSET HILLS, MISSOURI**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2015

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Sunset Hills, Missouri (the City) was incorporated in June 1957. The City operates under a Mayor-Board of Aldermen form of government. The City's major operations include police protection, street maintenance and improvements, parks and recreation and general administrative services. The significant accounting policies applied by the City in the preparation of the accompanying financial statements are summarized below:

**A. REPORTING ENTITY**

The City applies the criteria set forth in GASB Statement No. 61, *The Financial Reporting Entity*, to determine which governmental organizations should be included in the reporting entity. The inclusion or exclusion of component units is based on the elected officials' accountability to their constituents. The financial reporting entity follows the same accountability. In addition, the financial statements of the reporting entity should allow the user to distinguish between the primary government (including its blended component units, which are, in substance, part of the primary government) and discretely presented component units. Criteria for inclusion of an entity into the primary governmental unit (in blended or discrete presentation) includes, but is not limited to, legal standing, fiscal dependency, imposition of will and the primary recipient of services.

**B. BASIC FINANCIAL STATEMENTS**

Basic financial statements consist of the following:

- Government-wide financial statements
- Fund financial statements, and
- Notes to the basic financial statements.

*Government-Wide Financial Statements* - The reporting model includes financial statements prepared using full accrual accounting for all the City's activities. This approach includes not just current assets and liabilities, but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter. Government-wide financial statements include the following:

*Statement of Net Position* - The statement of net position is designed to display the financial position of the Primary Government (governmental and business-type activities). The City reports capital assets in the government-wide statement of net position and reports depreciation expense in the statement of activities. The net position of the City is broken down into three categories 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

B. **BASIC FINANCIAL STATEMENTS** - continued

*Statement of Activities* - The statement of activities reports expenses and revenues in a format that focuses on the cost of each of the City's functions. The expense of individual functions is compared to the revenue generated directly by the function. Accordingly, the City has recorded capital assets and certain other long-term assets and liabilities in the statement of net position and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of revenues, expenses and changes in net position. The City has elected to implement the requirements of GASB 34 related to infrastructure assets from January 1, 2004 forward.

The government-wide financial statements report information on all of the nonfiduciary activities of the Primary Government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the statement of net position have been eliminated.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue includes: charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity and grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund based financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. The major governmental funds are the General Fund, the Capital Projects Fund, Storm Water/ Parks Fund, Debt Service Fund and the County Road Fund. GASB No. 34 sets forth minimum criteria (percentage of assets and deferred outflows, liabilities and deferred inflows, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds, if any, are combined in a single column in the fund financial statements.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operation of the City are included on the statement of net position. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The City records revenue for fines and court cost when paid, as they are not measurable or estimable before then. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

C. **MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The City in general considers revenues available if they are collected within 60 days after year-end. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due.

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, sales taxes, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous revenue are considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance related legal and contractual provisions.

The City reports the following major governmental funds:

**The General Fund** - The City's primary operating fund, which accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

**Capital Projects Fund** - The City uses this fund to account for sales tax revenue designated for capital projects.

**County Road Fund** - The City uses this fund to account for property taxes collected for road projects.

**Storm Water/Parks Fund** - The City uses this fund to account for taxes collected for storm water and parks projects.

**Debt Service Fund** - The City uses this fund to accumulate resources used to pay its long-term debt.

D. **PREPAID ITEMS**

Payments made to vendors for services that will benefit periods beyond the fiscal year-end are recorded as prepaid items. The cost of prepaid items is recorded as expenditures or expenses when consumed rather than when purchased. Prepaid items are equally offset by a fund balance amount which indicates that they do not constitute "available spendable resources" even though they are a component of current assets.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

E. **CAPITAL ASSETS**

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets (e.g., roads, sidewalks, traffic lights, street lights, sewer lines and similar items), are reported in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Infrastructure assets with an initial cost of \$50,000 or more are also capitalized and depreciated. Donated capital assets are recorded at estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives is not capitalized.

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

<u>Major Group</u>	<u>Life</u>
Buildings and improvements	15 - 50 years
Land improvements	15 - 50 years
Vehicles and equipment	2 - 30 years
Infrastructure	10 - 50 years

The government-wide financial statements do not reflect those infrastructure assets completed prior to January 1, 2004.

F. **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: (1) the reported amounts of assets and liabilities, (2) disclosures such as contingencies, and (3) the reported amounts of revenues and expenses included in such financial statements. Actual results could differ from those estimates.

G. **INTERFUND TRANSACTIONS**

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

H. **COMPENSATED ABSENCES**

The City has adopted a formal personnel policy with policies in effect that relate to vacation and sick pay. City employees are allowed to carry forward vacation days past their anniversary date. In the event of termination, an employee is paid for accumulated vacation days. Therefore, vacation liability of \$105,717 has been accrued in the General Fund at December 31, 2015. Employees are not paid for accumulated sick leave upon termination; accordingly, the related potential liability has not been recorded.

I. **LONG-TERM LIABILITIES**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Initial-issue premiums and discounts are deferred and amortized over the life of the debt using the straight-line method. Debt is reported net of the unamortized portion of applicable premium or discount. Amortization of premiums or discounts is included in interest expense. Debt issuance costs are expensed when incurred.

J. **NET POSITION AND FUND EQUITY**

In government-wide financial statements, net position is reported in three categories: net position investment in capital assets; restricted net position; and unrestricted net position. Net investment in capital assets represents capital assets less accumulated depreciation less outstanding principal on related debt. Net investment in capital assets does not include the unspent proceeds of capital debt. Restricted net position represents net position restricted by parties outside of the City (such as creditors, grantors, contributors, laws and regulations of other governments).

When both restricted and unrestricted sources are available for use, it is the government policy to use restricted first, then unrestricted resources as they are needed. The government-wide statement of net position reports \$5,735,607 of restricted net position, \$5,711,757 of which is restricted by enabling legislation.

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

**Nonspendable** - Amounts that cannot be spent either because they are not in spendable form or because of legal or contractual requirements.

**Restricted** - Amounts that are constrained for specific purposes which are externally imposed by providers, such as those mandated by creditors, grantors, contributors, or laws and regulations.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

J. **NET POSITION AND FUND EQUITY** - continued

**Committed** - Resources which are subject to limitations the government imposes upon itself at its highest level of decision making (ordinance), and that remain binding unless removed in the same manner.

**Assigned** - Resources which are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be established by the Board of Directors or an official to which the Board of Directors has delegated the authority to assign amounts for specific purposes.

**Unassigned** - All amounts not included in the other classifications.

The City would typically use restricted fund balances first, followed by committed resources and assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first.

K. **INVESTMENTS**

The City is authorized to invest funds not immediately needed for the purposes to which the funds are applicable, in obligations of the United States Treasury, United States Government Agencies, Repurchase Agreements, Certificates of Deposit and money market funds fully insured and/or collateralized, and Bankers' Acceptance issued by domestic commercial banks and Commercial Paper issued by domestic corporations having total assets in excess of five hundred million dollars, which have received the highest rating issued by Moody's Investor Services, Inc. or Standard and Poor's Corporation. The City's investments are carried at fair value.

L. **DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has pension-related deferred outflows reported in the government-wide statement of net position. These include the differences between expected and actual experience, which is deferred and amortized over future periods and the City's employer contributions subsequent to the net pension liability measurement date of June 30, 2015 which will be used to reduce the liability in the subsequent year.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** - continued

L. **DEFERRED OUTFLOWS/INFLOWS OF RESOURCES** - continued

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting. The first, pension-related deferred inflows, is reported in the government-wide statement of net position. This represents difference between projected and actual earnings on pension plan investments which is amortized over future periods. The City also reports unavailable revenues, which arises under the modified accrual basis of accounting, as deferred inflows on the governmental funds balance sheet. The governmental funds report these property taxes as unavailable revenue. The amounts are deferred and recognized as an inflow of resources in the period when the amounts become available.

M. **PENSIONS**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Missouri Local Government Employees Retirement System (LAGERS) and additions to/deductions from LAGERS fiduciary net position have been determined on the same basis as they are reported by LAGERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value

2. **BUDGETS AND BUDGETARY ACCOUNTING**

The City adopts an annual operating budget on a cash basis for all governmental.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- Each department head submits a budget to the finance committee for the September board meeting.
- The finance committee presents two readings to the Board of Aldermen.
- The budget is adopted by the Board of Aldermen in December.
- The finance committee approves budget transfers as required during the year.
- A motion from the Board of Aldermen is required to amend the budget.

All appropriations lapse at fiscal year-end.

3. **CASH AND TEMPORARY INVESTMENTS**

The City's bank deposits are required by state law to be secured by the deposit of certain securities specified by RSMo 30.270 with the City or trustee institution. The value of the securities must amount to the total of the City's cash not insured by the Federal Deposit Insurance Corporation. As of December 31, 2015, the carrying amount of the City's bank deposits totaled \$5,742,545 with bank balances of \$6,230,730. The bank balance was covered by federal depository insurance or covered by an irrevocable, standby letter of credit issued by the Federal Home Loan Bank.

4. **PROPERTY TAX**

The City's property tax is levied each year on the assessed value listed as of the prior January 1 for all real and personal property located in the City. Taxes are levied on October 1 and payable by December 31. A lien is placed on the property on January 1 and is then subject to interest and penalties. The assessed value at January 1, 2015, upon which the 2015 levy was based on an assessed value for real, personal and public utility property of \$355,955,848.

The City's tax rate was levied at the following rates per \$100 of assessed valuation for the General Fund:

	<u>RATE</u>
Residential	\$.055
Agricultural	.056
Commercial	.054
Personal	.060

5. **INVESTMENTS**

The City has established and approved an Investment Policy Statement to apply to all financial assets of the City. The policy does not address custodial credit risk. In addition, the policy allows for the investment of debt proceeds held by bond trustees, to be invested in accordance with the bond documents.

**Credit Risk:** Credit risk is the risk of loss due to the failure of the security issuer or backer. The City's investment policy seeks to minimize credit risk by limiting investments in bankers' acceptances and commercial paper to the highest letter and numerical rating by Moody's Investor Services, Inc. or Standard and Poor's Corporation. Also, investments are limited to U.S. Treasury Bills, Notes and Bonds, U.S. Government Agencies, Repurchase Agreements, Certificates of Deposit and certain commercial paper. The City will reduce credit risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries, and advisors with which the City will do business and diversifying the portfolio so that potential losses on individual securities will be minimized.

**Concentration of Credit Risk:** Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. As of December 31, 2015, more than 5% of the City's investments are in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Private Export Funding, and Tennessee Valley Authority. These investments are 14%, 14%, 19%, and 5%, respectively, of the City's investments.

5. **INVESTMENTS** - continued

**Interest Rate Risk:** Interest rate risk is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and by maintaining a sufficient balance in liquid funds to adequately cover forecasted cash requirements.

Investment Type	Fair Value	Maturity Range (Years)	Rating Fitch/Moody's
U.S. Government Agency			
Private Export Funding Corporation	\$ 2,196,293	3-5	Aaa
Municipal Bond Tennessee Valley	545,454	3-5	Aaa
U.S. Treasuries			
Federal Home Loan Bank	1,677,464	3-5	Aaa
Federal Home Loan Mortgage Corporation	1,659,542	3-5	Aaa
Money Market Funds	23,961	0-2	Aaa-mf
Total Fair Value	<u>\$ 6,102,714</u>		

The City structures its investment portfolio so that securities mature to meet cash requirements for ongoing operations. As a means of limiting its exposure to fair value losses from rising interest rates, the City's investment policy limits its investment allocation as follows:

Investment Type	Maturity Range	Maximum Allocation
U.S. Treasury Bills, Notes, Bonds	Less than 10 years	100%
U.S. Government Agency and Instrumentality Obligations	Less than 3 years	75
Collateralized Repurchase	Less than 90 days	50
Certificates of Deposit	Less than 5 years	50
Commercial Paper	Less than 5 years	5
Bankers' Acceptances	Less than 180 days	5

6. **CAPITAL ASSETS**

Capital asset activity for the primary government for the year ended December 31, 2015 is as follows:

	BALANCE, BEGINNING OF YEAR	TRANSFERS AND ADDITIONS	TRANSFERS AND DELETIONS	BALANCE, END OF YEAR
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 1,555,549	\$ -	\$ -	\$ 1,555,549
Construction in progress	187,019	798,115	-	985,134
Total capital assets, not being depreciated	<u>1,742,568</u>	<u>798,115</u>	<u>-</u>	<u>2,540,683</u>
Capital assets, being depreciated:				
Land improvements	1,843,847	138,979	-	1,982,826
Buildings and improvements	13,419,953	176,457	-	13,596,410
Vehicles and equipment	3,146,530	275,312	(200,617)	3,221,225
Infrastructure	8,380,761	-	-	8,380,761
Total capital assets, being depreciated	<u>26,791,091</u>	<u>590,748</u>	<u>(200,617)</u>	<u>27,181,222</u>
Less accumulated depreciation for:				
Land improvements	(580,277)	(105,982)	-	(686,259)
Buildings and improvements	(3,187,523)	(430,009)	-	(3,617,532)
Vehicles and equipment	(1,755,022)	(284,641)	198,207	(1,841,456)
Infrastructure	(1,436,609)	(255,000)	-	(1,691,609)
Total accumulated depreciation	<u>(6,959,431)</u>	<u>(1,075,632)</u>	<u>198,207</u>	<u>(7,836,856)</u>
Total capital assets, being depreciated, net	<u>19,831,660</u>	<u>(484,884)</u>	<u>(2,410)</u>	<u>19,344,366</u>
Total governmental activities	<u>\$ 21,754,228</u>	<u>\$ 313,231</u>	<u>\$ (2,410)</u>	<u>\$ 21,885,049</u>

6. **CAPITAL ASSETS** - continued

Depreciation expense was charged to functions/programs of the Primary Government as follows:

Governmental activities:	
General government	\$ 4,690
Public works	470,529
Public safety	84,689
Municipal court	960
Parks and recreation	312,074
Pool	<u>202,690</u>
Total depreciation expense - governmental activities	<u>\$ 1,075,632</u>

7. **LONG-TERM LIABILITIES**

**Certificate of Participation Notes Series 2009** - were issued totaling \$14,110,000 to fund capital improvements at interest rates ranging from 2% to 4.7%. Principal and interest payments are provided from proceeds of a storm water control and local park improvements tax levy. The indentures require a reserve balance of \$1,097,729. The fair market value of the reserve fund investments, along with accrued interest, was \$1,100,587 at December 31, 2015. The outstanding balance at December 31, 2015 was \$11,145,000.

Payments required on these certificates are as follows:

YEAR	CERTIFICATES OF PARTICIPATION		
	PRINCIPAL	INTEREST	TOTAL
2016	\$ 625,000	\$ 460,120	\$ 1,085,120
2017	645,000	438,676	1,083,676
2018	670,000	414,826	1,084,826
2019	695,000	388,364	1,083,364
2020	720,000	360,064	1,080,064
2021-2025	4,070,000	1,319,134	5,389,134
2026-2028	<u>3,720,000</u>	<u>303,013</u>	<u>4,023,013</u>
Total	<u>\$ 11,145,000</u>	<u>\$ 3,684,197</u>	<u>\$ 14,829,197</u>

7. **LONG-TERM LIABILITIES** - continued

Long-term liability activity for the year ended December 31, 2015, was as follows:

	<u>BALANCE, BEGINNING OF YEAR</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE , END OF YEAR</u>	<u>WITHIN ONE YEAR</u>
Governmental activities:					
Certificates of					
Participation	\$ 11,750,000	\$ -	\$ (605,000)	\$ 11,145,000	\$ 625,000
Discount on Certificates of					
Participation	<u>(132,952)</u>	<u>-</u>	<u>10,097</u>	<u>(122,855)</u>	<u>-</u>
 Total Long-Term					
Liabilities	<u>\$ 11,617,048</u>	<u>\$ -</u>	<u>\$ (594,903)</u>	<u>\$ 11,022,145</u>	<u>\$ 625,000</u>

**Legal Debt Margin** - Under Article VI, Sections 26(b) and 26(c) of the Constitution of the State of Missouri, the City, by vote of 2/3 of the qualified electors voting thereon, may incur general obligation indebtedness for City purposes in an amount not to exceed 5% of the assessed valuation of taxable tangible property within the City ascertained by the last completed assessment for state or county purposes. A computation of the legal debt margin at December 31, 2015 follows:

Assessed valuation	\$ 355,955,848
Debt limit - 5% of assessed value	\$ 17,797,792
Total debt applicable to debt limit	<u>-</u>
Legal debt margin	<u>\$ 17,797,792</u>

8. **INTERFUND TRANSACTIONS**

The following transfers were made during the fiscal year ending December 31, 2015:

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
Storm Water/Parks Fund	\$ -	\$ 542,209
Debt Service Fund	542,209	-

Transfers were made into the Debt Service Fund. The transfers provided funds to retire bonds and establish debt service reserve.

9. **RISK MANAGEMENT**

The City is exposed to various risks of loss related to tort; theft of; damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City purchases commercial insurance to cover risks related to building and other City property, crimes, business, travel, earthquakes, and employee blanket bonds. Settled claims resulting from these risks have not exceeded coverage in any of the past three years.

10. **PENSION PLAN**

**Plan Description**

The City’s defined benefit pension plan provides certain retirement, disability and death benefits to plan members and beneficiaries. The City participates in the Missouri Local Government Employees Retirement System (LAGERS). LAGERS is an agent multiple-employer, statewide public employee pension plan established in 1967 and administered in accordance with RSMo. 70.600-70.755. As such, it is LAGERS responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401(a) and is tax exempt. The responsibility for the operations and administration of LAGERS is vested in the LAGERS Board of Trustees consisting of seven persons. LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by accessing the LAGERS website at [www.molagers.org](http://www.molagers.org).

**Benefits Provided**

LAGERS provides retirement, death and disability benefits. Benefit provisions are adopted by the governing body of the employer, within the options available in the state statutes governing LAGERS. All benefits vest after 5 years of credited service. Employees who retire on or after age 60 (55 for police) with 5 or more years of service are entitled to an allowance for life based upon the benefit program information provided below. Employees may retire with an early retirement benefit with a minimum of 5 years of credited service and after attaining age 55(50 for police) and receive a reduced allowance.

	<u>2015</u>
Benefit Program	1.50% for life
Final Average Salary	3 years
Member Contribution Rate	0%

Benefit terms provide for annual post retirement adjustments to each member’s retirement allowance subsequent to the member’s retirement date. The annual adjustment is based on the increase in the Consumer Price Index and is limited to 4% per year.

10. **PENSION PLAN** - continued

**Employees Covered By Benefit Terms**

At June 30, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	24
Inactive employees entitled to but not yet receiving benefits	32
Active employees	64
TOTAL	<u>120</u>

**Contributions** - The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by LAGERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance an unfunded accrued liability. Full-time employees of the employer do not contribute to the pension plan. Employer contribution rates are 7.6% (General) and 5.8% (Police) of annual covered payroll.

**Net Pension Liability** - The employer's net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of February 28, 2015.

**Actuarial assumptions** - The total pension liability in the February 28, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation:	3.0 % price; 3.5% wage
Salary Increase:	3.5% to 6.8% including inflation
Investment rate of return:	7.25%

Mortality rates were based on 105% of the 1994 Group Annuity Mortality Table set back zero years for both males and females.

The actuarial assumptions used in the February 28, 2015 valuation were based on the results of an actuarial experience study for the period March 1, 2005 through February 28, 2010.

The long-term expected rate of return on pension plan investments was determined using a model method in which the best-estimate ranges of expected future real rates of return (expected returns, net of investment expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

10. **PENSION PLAN** - continued

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Equity	48.50%	5.50%
Fixed Income	25.00%	2.25%
Real Assets	20.00%	4.50%
Strategic Assets	6.50%	7.50%

**Discount rate** - The discount rate used to measure the total pension liability is 7.25%. The projection of cash flows used to determine the discount rate assumes that employer and employee contributions will be made at the rates agreed upon for employees and the actuarially determined rates for employers. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to pay all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payment to determine the total pension liability.

**Changes in the Net Pension Liability**

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances as of June 30, 2014	\$ 12,732,541	\$ 15,529,256	\$ (2,796,715)
Changes for the year:			
Service cost	295,830	-	295,830
Interest	917,956	-	917,956
Differences between expected and actual experience	(463,860)	-	(463,860)
Contributions - employer	-	263,371	(263,371)
Net investment income	-	304,836	(304,836)
Benefit payments	(440,504)	(440,504)	-
Administrative expense	-	(10,626)	10,626
Other (net transfer)	-	205,700	(205,700)
Net Changes	309,422	322,777	(13,355)
Balances as of June 30, 2015	\$ 13,041,963	\$ 15,852,033	\$ (2,810,070)

10. **PENSION PLAN** - continued

**Sensitivity of the net pension liability to changes in the discount rate** - The following presents the Net Pension Liability of the employer, calculated using the discount rate of 7.25%, as well as what the employer's Net Pension Liability would be using a discount rate that is 1 percentage point lower 6.25% or one percentage point higher 8.25% than the current rate.

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Net pension liability (asset)	\$(904,055)	\$(2,810,070)	\$(4,387,815)

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended June 30, 2015 the employer recognized pension expense of \$426,044. The employer reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 657,339	\$ -
City contributions subsequent to the measurement date	127,327	-
Net differences between projected and actual earning on pension plan investment	-	389,426
Total	<u>\$ 784,666</u>	<u>\$ 389,426</u>

The deferred outflows of resources related to pension resulting from City contributions subsequent to measurement date of \$127,327 will be recognized as a reduction of net pension liability in the year ended December 31, 2015. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ 89,901
2017	89,901
2018	89,901
2019	89,900
2020	(44,960)
Thereafter	(46,730)

11. **DEFERRED COMPENSATION PLAN**

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The City makes no contribution to the Plan.

VOYA Life Insurance and Annuity Company administers the City's Deferred Compensation Plan. The City does not have significant administrative involvement in the Plan. With the adoption of Governmental Accounting Standards Board (GASB) No. 32, "*Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*" the City's Deferred Compensation Plan is not included in the basic financial statements. The City's Plan does not meet the criteria for reporting the Deferred Compensation Plan in a fiduciary fund.

12. **CONTINGENCIES**

From time to time, the City is a party to various pending claims and legal actions arising in the ordinary course of its operations. Although the outcome of such matters cannot be forecast with certainty, in the opinion of management, all such matters are adequately covered by insurance, or if not covered, are without merit or involve amounts such that an unfavorable disposition would not have a material effect on the financial statements of the City.

13. **CHANGE IN ACCOUNTING PRINCIPLE**

In 2015, the City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. GASB Statement No. 68 changed how governments measure and report the long-term obligations and annual costs associated with the pension benefits they provide. GASB Statement No. 71 addressed the issue of contributions made the defined benefit pension plan after the measurement date for the year in which GASB No. 68 is implemented. As a result of the implementation, net position as of December 31, 2014 was restated as follows:

**Government-wide financial statements**

	<u>Governmental Activities</u>
Net position at December 31, 2014	\$ 21,832,957
Removal of net pension obligation	337,434
Deferred outflows of resources related to pension	142,842
Beginning net pension asset	<u>2,796,715</u>
Net position as of December 31, 2014	<u>\$ 25,109,948</u>

14. **PENDING GOVERNMENTAL ACCOUNTING STANDARDS**

The effect on the City's financial statements of the following statements issued, but not yet adopted, has not yet been determined.

This report does not incorporate GASB Statement No. 72, Fair Value and Measurement, GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of FASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Government, GASB State No. 77, Tax Abatement Disclosures, GASB Statement No. 78, Pensions Provided through Certain Multiple Employer Defined Benefit Pensions plans and GASB Statement No. 79, Certain External Investment Pools and Pool Participants. The City will adopt and implement these statements at the required time.

15. **SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through June 24, 2016, the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF SUNSET HILLS, MISSOURI**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	BUDGET		BUDGETARY BASIS ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>REVENUES</b>				
Taxes	\$ 4,999,890	4,999,890	\$ 5,161,673	\$ 161,783
Licenses and permits	991,344	991,344	971,595	(19,749)
Fines and court costs	375,000	375,000	396,538	21,538
Investment income	47,500	47,500	60,217	12,717
Charges for service	723,500	723,500	769,874	46,374
Grants	1,861,106	577,311	559,490	(17,821)
Miscellaneous	65,467	65,467	14,702	(50,765)
TOTAL REVENUES	<u>9,063,807</u>	<u>7,780,012</u>	<u>7,934,089</u>	<u>154,077</u>
<b>EXPENDITURES</b>				
Current:				
General government	453,871	453,871	478,486	(24,615)
Public works	3,138,936	3,138,936	1,336,349	1,802,587
Public safety	2,485,864	2,485,864	2,406,681	79,183
Municipal court	187,862	187,862	187,244	618
Parks and recreation	1,291,497	1,291,497	1,315,012	(23,515)
Pool	265,887	265,887	268,685	(2,798)
Non-departmental	1,330,693	1,294,883	1,223,062	71,821
Capital outlay	110,550	118,550	660,106	(541,556)
TOTAL EXPENDITURES	<u>9,265,160</u>	<u>9,237,350</u>	<u>7,875,625</u>	<u>1,361,725</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(201,353)	(1,457,338)	58,464	<u>\$ 1,515,802</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>6,525,513</u>	<u>6,525,513</u>	<u>6,525,513</u>	
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 6,324,160</u>	<u>\$ 5,068,175</u>	<u>\$ 6,583,977</u>	
<b>FUND BALANCE - END OF YEAR - BUDGET BASIS</b>			\$ 6,583,977	
Adjustments to the budget basis:				
Revenues			672,419	
Expenditures			(136,165)	
Difference in investment fair market value and cost			(49,040)	
<b>FUND BALANCE - END OF YEAR - GAAP BASIS</b>			<u>\$ 7,071,191</u>	

**CITY OF SUNSET HILLS, MISSOURI**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**COUNTY ROAD FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	BUDGET		BUDGETARY BASIS ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>REVENUE</b>				
Taxes	\$ 355,000	\$ 355,000	\$ 383,600	\$ 28,600
<b>EXPENDITURES</b>				
Capital outlay	266,367	266,367	154,830	111,537
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	88,633	88,633	228,770	<u>\$ 140,137</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>70</u>	<u>70</u>	<u>70</u>	
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 88,703</u>	<u>\$ 88,703</u>	<u>\$ 228,840</u>	
<b>FUND BALANCE - END OF YEAR - BUDGET BASIS</b>			\$ 228,840	
Adjustments to the budget basis:				
Revenue			107,835	
Expenditures			<u>-</u>	
<b>FUND BALANCE - END OF YEAR - GAAP BASIS</b>			<u>\$ 336,675</u>	

**CITY OF SUNSET HILLS, MISSOURI**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**STORM WATER/ PARKS FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2015**

	BUDGET		BUDGETARY BASIS ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>REVENUES</b>				
Taxes	\$ 1,171,547	\$ 1,171,247	\$ 1,204,734	\$ 33,487
Investment income	-	300	652	352
<b>TOTAL REVENUES</b>	<u>1,171,547</u>	<u>1,171,547</u>	<u>1,205,386</u>	<u>33,839</u>
<b>EXPENDITURES</b>				
Parks and recreation	165,350	163,350	67,096	96,254
Capital outlay	-	182,040	98,593	83,447
<b>TOTAL EXPENDITURES</b>	<u>165,350</u>	<u>345,390</u>	<u>165,689</u>	<u>179,701</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(1,086,751)	-	(542,209)	542,209
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(80,554)	826,157	497,488	<u>\$ (328,669)</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>2,487,935</u>	<u>2,487,935</u>	<u>2,487,935</u>	
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 2,407,381</u>	<u>\$ 3,314,092</u>	<u>\$ 2,985,423</u>	
<b>FUND BALANCE - END OF YEAR - BUDGET BASIS</b>			\$ 2,985,423	
Adjustments to the budget basis:				
Revenues			214,406	
Expenditures			<u>(2,680)</u>	
<b>FUND BALANCE - END OF YEAR - GAAP BASIS</b>			<u>\$ 3,197,149</u>	

**CITY OF SUNSET HILLS, MISSOURI**  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY (ASSET) AND INVESTMENT  
 LAGERS (GENERAL AND POLICE DIVISIONS)  
 FOR THE CURRENT YEAR

	<b>June 30, 2015</b>
<b>Total Pension Liability</b>	
Service cost	\$ 295,830
Interest on the total pension liability	917,956
Change of benefit terms	-
Difference between expected and actual experience	(463,860)
Changes of assumptions	-
Benefit payments, including refunds	(440,504)
<b>Net change in total pension liability</b>	<b>309,422</b>
<b>Total pension liability - beginning</b>	<b>12,732,541</b>
<b>Total pension liability - ending</b>	<b>\$ 13,041,963</b>
 <b>Plan Fiduciary Net Position</b>	
Contributions-employer	\$ 263,371
Contributions-employee	-
Net investment income	304,836
Benefit payments, including refunds	(440,504)
Pension plan administrative expense	(10,626)
Other (net transfer)	205,700
<b>Net change in plan fiduciary net position</b>	<b>322,777</b>
<b>Plan fiduciary net position - beginning</b>	<b>15,529,256</b>
<b>Plan fiduciary net position - ending</b>	<b>\$ 15,852,033</b>
 <b>Employer net pension liability (asset)</b>	<b>\$ (2,810,070)</b>
 <b>Plan fiduciary net position as a percentage of the total pension liability</b>	 121.5 %
 <b>Covered employee payroll</b>	 \$ 3,601,200
 <b>Employer's net pension asset as a percentage of covered employee payroll</b>	 (78.0) %

**Notes to schedule:**

Information for prior years is not available; amounts presented for the year end were determined as of June 30, the measurement date.

**CITY OF SUNSET HILLS, MISSOURI**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**LAGERS (GENERAL AND POLICE DIVISIONS)**  
**LAST TEN FISCAL YEARS**

<u>Year ended December 31,</u>	<u>Actuarial Determined Contribution</u>	<u>Actual Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2006	\$ 148,461	\$ 148,461	\$ -	\$ 2,525,371	5.88%
2007	143,243	143,243	-	2,653,393	5.40%
2008	145,924	145,924	-	2,906,725	5.02%
2009	138,118	138,118	-	3,151,816	4.38%
2010	309,750	179,277	130,473	3,319,716	5.40%
2011	337,556	218,750	118,806	3,415,465	6.40%
2012	350,665	255,745	94,920	3,449,878	7.41%
2013	332,419	294,146	38,273	3,495,470	8.42%
2014	289,119	289,119	-	3,414,550	8.47%
2015	247,993	247,993	-	3,661,592	6.77%

**Notes to Schedule of Contributions**

**Valuation date:** 02/28/15

**Notes:** The roll-forward of total pension liability from February 28, 2015 to June 30, 2015 reflects expected service cost and interest reduced by actual benefit payments and administrative expenses.

**Methods and assumptions used to determine contribution rates:**

<b>Actuarial cost method</b>	Entry age normal
<b>Amortization method</b>	Level percentage of payroll, closed
<b>Remaining amortization period</b>	Multiple bases from 14 to 15 years
<b>Asset valuation method</b>	5-year smoothed market; 20% corridor
<b>Inflation</b>	3.5% wage inflation; 3.0% price inflation
<b>Salary increases</b>	3.5% - 6.8% including wage inflation
<b>Investment rate of return</b>	7.25%, net of investment and administrative expenses
<b>Retirement age</b>	Experience-based table of rates that are specific to the type of eligibility condition.
<b>Mortality</b>	105% of the 1994 Group Annuity Mortality Table set back 0 years for men and 0 years for women. Based upon experience observed during the most recent 5-year period study, it appears that the current table provides for an approximate 13% margin for future mortality improvement.

**Other information:** None