

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

***SINGLE AUDIT REPORT***

***DECEMBER 31, 2011***

**CITY OF SUNSET HILLS, MISSOURI**  
SINGLE AUDIT REPORT  
SUNSET HILLS, MISSOURI

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**CITY OF SUNSET HILLS, MISSOURI**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS-THROUGH NUMBER</u>	<u>DISBURSEMENT/ EXPENDITURES</u>
<b>U.S. Department of Transportation</b>			
Passed through Missouri Department of Transportation:			
Highway Planning and Construction	20.205	STP - 5410 (615)	\$ 594,010

See accompanying note to schedule of expenditures of federal awards.

**CITY OF SUNSET HILLS, MISSOURI**  
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Sunset Hills, Missouri and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***



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

We have audited the basic financial statements of the governmental activities and each major fund of City of Sunset Hills, Missouri as of and for the year ended December 31, 2011, and have issued our report thereon dated May 11, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Sunset Hills, Missouri's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We consider deficiency 2011-1 described in the accompanying schedule of findings and questioned costs to be a material weakness.

## Compliance And Other Matters

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

This report is intended solely for the information and use of management, the Board of Aldermen, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Botz, Deal & Company*

May 11, 2012

**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL  
CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**



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

**Compliance**

We have audited the compliance of City of Sunset Hills, Missouri, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2011.

City of Sunset Hills, Missouri's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Sunset Hills, Missouri's management. Our responsibility is to express an opinion on City of Sunset Hills, Missouri's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and *OMB Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Sunset Hills, Missouri's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Sunset Hills, Missouri's compliance with those requirements.

In our opinion, the City of Sunset Hills, Missouri complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2011.

**Internal Control Over Compliance**

The management of City of Sunset Hills, Missouri is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Sunset Hills, Missouri's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with *OMB Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on effectiveness of City of Sunset Hills, Missouri's internal control over compliance.

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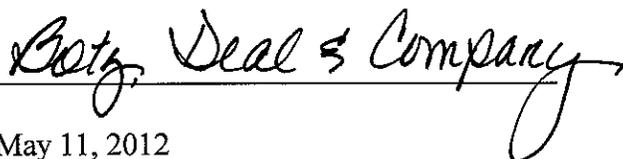
A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned function, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness* in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance require of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

### **Schedule Of Expenditures Of Federal Awards**

We have audited the financial statements of the governmental activities and each major fund and the aggregate remaining fund information of City of Sunset Hills, Missouri, as of and for the year ended December 31, 2011, and have issued our report thereon dated May 11, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the Board of Aldermen, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

 Betty Deal & Company

May 11, 2012

**CITY OF SUNSET HILLS, MISSOURI**  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
DECEMBER 31, 2011

**A. Summary of Audit Results**

1. The auditors' report expresses an unqualified opinion on the financial statements.
2. No instances of noncompliance material to the financial statements were disclosed during the audit.
3. No significant deficiencies relating to the audit of the major federal awards programs are reported.
4. The auditors' report on compliance for the major federal awards programs expresses an unqualified opinion.
5. There were no material audit findings that are required to be reported in accordance with Section 510(a) of *OMB Circular A-133*.
6. The program tested as a major program was U.S. Department of Transportation Planning and Construction CFDA No. 20.205.
7. The threshold for distinguishing Type A and B programs was \$300,000.
8. The City of Sunset Hills, Missouri was not determined to be a low risk auditee.

**B. Findings - Financial Statement Audit**

2011-1 Significant Audit Adjustments

*Condition and Criteria:* During the audit, we proposed several material audit adjustments. Under the reporting requirements, if material audit adjustments are made by the audit team, it is considered a significant deficiency and a material weakness in financial reporting.

*Cause:* The City maintains records on a cash basis in order to maintain consistency with their budgetary basis.

*Effect:* Cash basis reporting is not GAAP.

*Recommendation:* Management should determine the cost/benefit of recording the budget and actual transactions in accordance with GAAP.

*Grantee's Response:* Management will consider the recommendation.

**C. Findings and Questioned Costs - Major Federal Awards Programs Audit**

1. None.

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

***FINANCIAL STATEMENTS  
FOR THE YEAR ENDED  
DECEMBER 31, 2011***

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

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## INDEPENDENT AUDITORS' 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 the remaining fund information of the City of Sunset Hills, Missouri, as of and for the year ended December 31, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated, May 11, 2012, on our consideration of the City of Sunset Hills, Missouri's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and 30 through 32 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 State 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.

*Batz, Deal & Company*  
May 11, 2011

**CITY OF SUNSET HILLS, MISSOURI  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2011**

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, 2011. It should be read in conjunction with the accompanying basic financial statements.

**FINANCIAL HIGHLIGHTS**

- The City ended the year with \$20,050,665 in net assets.
- Improvements to Sappington Barrack Road were completed in 2011 at a cost of \$816,476.
- The City completed a full rehabilitation of the tennis courts in Watson trail Park at a cost of \$250,000; 90% of the cost was funded by grants.
- The City purchased one public works truck and four police vehicles at a total cost of \$217,698.
- As a result of tornado damage in Watson Trail Park, the storage building was rebuilt at a cost of \$55,343 and the shelter was rebuilt at a cost of \$93,150.

**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 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 Assets 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 Assets 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 the 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 combined net assets were \$20,050,665 as of December 31, 2011. This analysis focuses on the net assets (Table 1) and changes in general revenues and significant expenses (table 2) of the City's governmental activities.

The City's net assets consist 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**

	2011	2010	Increase (Decrease)
Current and other assets	\$ 13,819,728	\$ 14,993,477	\$ (1,173,749)
Capital assets	21,204,193	20,436,846	767,347
Total assets	<u>35,023,921</u>	<u>35,430,323</u>	<u>(406,402)</u>
Current and other liabilities	922,376	967,746	(45,370)
Long-term liabilities	14,050,880	14,511,660	(460,780)
Total liabilities	<u>14,973,256</u>	<u>15,479,406</u>	<u>(506,150)</u>
Net assets:			
Invested in capital assets, net of related debt	11,591,795	11,016,796	574,999
Restricted	3,785,145	3,705,845	79,300
Unrestricted	4,673,725	5,228,276	(554,551)
Total net assets	<u>\$ 20,229,788</u>	<u>\$ 19,950,917</u>	<u>\$ 99,748</u>

The \$1.2 million decrease in current assets is a result of capital expenditures and payments on long-term debt. Net assets increased by \$99,748 as a result of revenues exceeding expenses during 2011 as reflected in the following table.

**Government-wide Financial Analysis - continued**

**Table 2**

	2011	2010	Increase (Decrease)
<b>Revenues:</b>			
<b>Program revenues:</b>			
Charges for service	\$ 1,701,066	\$ 1,546,561	\$ 154,505
Capital grants and contributions	612,675	26,119	586,556
<b>General revenues:</b>			
Taxes	7,061,273	6,970,840	90,433
Interest income	39,919	57,525	(17,606)
Gain (loss) on disposal of assets	(2,014)	2,810	(4,824)
Miscellaneous	19,011	17,053	1,958
<b>Total revenues</b>	<b>9,431,930</b>	<b>8,620,908</b>	<b>811,022</b>
<b>Expenses:</b>			
General government	567,856	551,657	16,199
Public works	2,745,202	1,804,568	940,634
Public safety	3,029,402	2,937,465	91,937
Municipal court	207,453	174,327	33,126
Park and recreation	1,648,837	1,325,886	322,951
Pool	548,336	429,388	118,948
Interest and fiscal charges	585,096	602,781	(17,685)
<b>Total expenses</b>	<b>9,332,182</b>	<b>7,826,072</b>	<b>1,506,110</b>
Increase in net assets	99,748	794,836	(695,088)
Net assets, beginning of year	19,950,917	19,156,081	794,836
Net assets, end of year	<u>\$ 20,050,665</u>	<u>\$ 19,950,917</u>	<u>\$ 99,748</u>

Total revenues for 2011 increased \$811,022 from total revenues in 2010. There was an increase of \$154,505 in charges for services which was mainly a result of a full year of operations at the community center. There was an increase of \$586,556 in capital grants and contributions for 2011 over year 2010. Sales tax collections increased which attributed to the \$90,433 increase in tax revenues.

The majority of the increase in expenditures was public works related. Much of the increase was related to the Mattese project and other one-time expenses like tornado clean up and traffic study. The increases in parks and recreation as well as pool are largely attributable to the increased depreciation expense for the new community center and pool improvements. The net pension obligation increased which is allocated as an expense to all functions.

## 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 2011	Fiscal Year Ending 2010	Increase (Decrease)	Percentage Change
Taxes	\$ 7,071,050	\$ 6,984,753	\$ 86,297	1.2 %
Licenses and permits	729,059	716,389	12,670	1.8
Fines and court costs	367,006	354,469	12,537	3.5
Investment income	39,919	57,525	(17,606)	(30.6)
Charges for service	605,001	475,703	129,298	27.2
Grants	612,675	26,119	586,556	2,245.7
Miscellaneous	22,997	20,662	2,335	11.3
Total general revenues	\$ <u>9,447,707</u>	\$ <u>8,635,620</u>	\$ <u>812,087</u>	

Approximately 75% of the revenue in the governmental funds comes from taxes, which include property tax, sales tax, utility gross receipt tax, and cigarette tax. Grant revenues increased approximately \$586,000 from the prior year, which is mainly due to a federal grant for Tributary B infrastructure improvements.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of the fiscal year 2011, the City had \$25,479,862 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 \$1,557,447 or 6.5% over the prior fiscal year.

**Table 4**

	2011	2010
Land	\$ 1,494,521	\$ 1,494,521
Construction in progress	788,152	567,414
Land improvements	1,191,588	1,241,588
Buildings and improvements	13,278,391	12,880,117
Vehicles and equipment	2,744,514	2,572,555
Infrastructure	5,982,696	5,166,220
Total	\$ <u>25,479,862</u>	\$ <u>23,922,415</u>

The most significant changes to capital assets this fiscal year related to the Sappington Barracks Road and tennis courts projects and vehicle purchases. 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 \$14,035,000 in outstanding debt compared to \$14,685,000 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>2011</u>	<u>2010</u>
Sales Tax Refunding Revenue Bonds	\$ 555,000	\$ 655,000
Certificate of Participation	<u>13,480,000</u>	<u>14,030,000</u>
Total Outstanding Debt	<u>\$ 14,035,000</u>	<u>\$ 14,685,000</u>

During the fiscal year, the City made principal payments totaling \$650,000. The City also has a long-term liability for its net pension obligation of \$179,123. 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, 2011, the governmental funds of the City reported a combined fund balance of \$12,818,769. This ending balance includes a decrease in fund balance of \$363,381 in the City's General Fund. It is the City's policy to have the fund balance in the General Fund equal to at least 50% of revenues. At December 31, 2011, the unreserved fund balance in the General Fund was 83% of revenues compared to 98% the previous year.

### General Fund Budgetary Highlights

The City prepares its budget on a cash basis.

For 2011, actual revenues in the General Fund on a budgetary basis were \$7,094,279 compared to the budget amount of \$7,408,772.

For 2011, actual expenditures in the General Fund on a budgetary basis were \$7,345,280 compared to the budget amount of \$7,663,268.

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

The 2012 General Fund budget includes a 6.8% decrease in revenues and a 10.6% decrease in expenditures in comparison to the 2011 final budget. The decrease in revenue and expenditure can be attributed to less grants and reduction in operating expenses for parks, pool, athletic fields, and community center.

The 2012 budget includes roadway and storm water projects, police, public works and vehicles and equipment purchases.

## **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:

Laura Rider  
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 ASSETS

DECEMBER 31, 2011

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 8,007,274
Taxes receivable:	
Property	432,024
Other	782,056
Cash and investments - restricted	4,259,359
Grant receivable	148,110
Interest receivable	3,511
Prepaid expenses	50,764
Bond issuance costs	136,630
Capital assets - net	
Nondepreciable	2,282,673
Depreciable	18,921,520
TOTAL ASSETS	<u>35,023,921</u>
<b>LIABILITIES</b>	
Accounts payable	318,775
Accrued wages and vacation	188,490
Deposits payable	5,912
Accrued interest payable	142,543
Other liabilities	50,001
Deferred revenue - business licenses	216,655
Noncurrent liabilities:	
Due in one year	665,000
Due in more than one year	13,385,880
TOTAL LIABILITIES	<u>14,973,256</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	11,591,795
Restricted:	
Debt Service	1,097,849
Storm water and parks	1,590,789
Capital projects	1,096,507
Unrestricted	4,673,725
TOTAL NET ASSETS	<u>\$ 20,050,665</u>

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, 2011**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		<u>Net (Expense)</u> <u>Revenue and</u> <u>Change in Net Assets</u>
		<u>Charges for</u> <u>Service</u>	<u>Capital</u> <u>Grants and</u> <u>Contributions</u>	<u>Governmental</u> <u>Activities</u>
<b>Governmental Activities</b>				
General government	\$ 567,856	\$ 704,221	\$ -	\$ 136,365
Public works	2,745,202	29,783	596,500	(2,118,919)
Public safety	3,029,402	376,517	-	(2,652,885)
Municipal court	207,453	-	-	(207,453)
Parks and recreation	1,648,837	307,881	16,175	(1,324,781)
Pool	548,336	282,664	-	(265,672)
Interest and fiscal charges	585,096	-	-	(585,096)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 9,332,182</b>	<b>\$ 1,701,066</b>	<b>\$ 612,675</b>	<b>(7,018,441)</b>
Taxes:				
Sales				4,164,616
Utility				1,909,938
Property				542,298
Franchise				109,195
Other				335,226
Interest income				39,919
Loss on the disposal of capital assets				(2,014)
Other miscellaneous revenue				19,011
<b>TOTAL GENERAL REVENUES</b>				<b>7,118,189</b>
<b>CHANGE IN NET ASSETS</b>				<b>99,748</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>				<b>19,950,917</b>
<b>NET ASSETS - END OF YEAR</b>				<b>\$ 20,050,665</b>

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

**CITY OF SUNSET HILLS, MISSOURI**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**DECEMBER 31, 2011**

	General Fund	Capital Projects Fund	County Road Fund	Storm Water/ Parks Fund	Non-major Debt Service Fund	Total
<b>ASSETS AND OTHER DEBITS</b>						
Cash and investments	\$ 5,695,849	\$ 656,880	\$ 156,640	\$ 1,497,905	\$ -	\$ 8,007,274
Taxes receivable:						
Property	104,769	130,442	196,813	-	-	432,024
Other	628,657	-	-	153,399	-	782,056
Cash and investments - restricted	-	-	-	3,161,510	1,097,849	4,259,359
Grants receivable	148,110	-	-	-	-	148,110
Interest receivable	3,511	-	-	-	-	3,511
Prepaid expenses	50,764	-	-	-	-	50,764
<b>TOTAL ASSETS AND OTHER DEBITS</b>	<b>\$ 6,631,660</b>	<b>\$ 787,322</b>	<b>\$ 353,453</b>	<b>\$ 4,812,814</b>	<b>\$ 1,097,849</b>	<b>\$ 13,683,098</b>
<b>LIABILITIES</b>						
Account payable	\$ 216,342	\$ 41,918	\$ -	\$ 60,515	\$ -	\$ 318,775
Accrued wages and vacation	188,490	-	-	-	-	188,490
Deposits payable	3,562	2,350	-	-	-	5,912
Other liabilities	50,001	-	-	-	-	50,001
Deferred revenue	246,032	-	55,119	-	-	301,151
<b>TOTAL LIABILITIES</b>	<b>704,427</b>	<b>44,268</b>	<b>55,119</b>	<b>60,515</b>	<b>-</b>	<b>864,329</b>
<b>FUND BALANCES:</b>						
Nonspendable:						
Reserved for prepaid items	50,764	-	-	-	-	50,764
Restricted:						
Capital projects fund	-	743,054	-	-	-	743,054
County road fund	-	-	298,334	-	-	298,334
Storm water / parks fund	-	-	-	4,752,299	-	4,752,299
Debt service	-	-	-	-	1,097,849	1,097,849
Police department training	9,145	-	-	-	-	9,145
Drug forfeiture	478	-	-	-	-	478
Landscaping memorial	994	-	-	-	-	994
Unassigned	5,865,852	-	-	-	-	5,865,852
<b>TOTAL FUND BALANCES</b>	<b>5,927,233</b>	<b>743,054</b>	<b>298,334</b>	<b>4,752,299</b>	<b>1,097,849</b>	<b>12,818,769</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 6,631,660</b>	<b>\$ 787,322</b>	<b>\$ 353,453</b>	<b>\$ 4,812,814</b>	<b>\$ 1,097,849</b>	<b>\$ 13,683,098</b>

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

**CITY OF SUNSET HILLS, MISSOURI**  
**RECONCILIATION OF THE STATEMENT OF NET ASSETS**  
**OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET**  
**AS OF DECEMBER 31, 2011**

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

Total fund balance per balance sheet	\$ 12,818,769
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	21,204,193
Receivables not collected in the current period are not available to pay current expenditures and, therefore, are deferred in the funds.	84,496
Bond issuance costs are amortized over the life of the bonds on the statement of net assets and are expensed as incurred in the funds.	136,630
Certificates of participation discounts are reported as other financing sources in the governmental funds. These amounts, net of accumulated amortization, are deferred and reported with the related debt in the statement of net assets.	163,243
Interest payable recorded in the statement of net assets does not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(142,543)
Long-term liabilities, including bonds payable, certificates of participation, and net pension obligation are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(14,214,123)</u>
Net assets of governmental activities	<u><u>\$ 20,050,665</u></u>

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

**CITY OF SUNSET HILLS, MISSOURI**

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
FOR THE YEAR ENDED DECEMBER 31, 2011

	General Fund	Capital Projects Fund	County Road Fund	Storm Water/ Parks Fund	Non-major Debt Service Fund	Total
<b>REVENUES</b>						
Taxes	\$4,791,142	\$ 881,364	\$ 361,811	\$ 1,036,733	\$ -	\$ 7,071,050
Licenses	729,059	-	-	-	-	729,059
Fines and court costs	367,006	-	-	-	-	367,006
Investment income	23,815	-	-	15,984	120	39,919
Charges for service	605,001	-	-	-	-	605,001
Grants	597,675	15,000	-	-	-	612,675
Miscellaneous	22,997	-	-	-	-	22,997
<b>TOTAL REVENUES</b>	<u>7,136,695</u>	<u>896,364</u>	<u>361,811</u>	<u>1,052,717</u>	<u>120</u>	<u>9,447,707</u>
<b>EXPENDITURES</b>						
Current:						
General government	415,635	70,445	-	-	-	486,080
Public works	1,163,659	99,233	-	-	-	1,262,892
Public safety	2,203,210	97,708	-	-	-	2,300,918
Municipal court	172,557	-	-	-	-	172,557
Parks and recreation	1,074,807	63,000	-	1,933	-	1,139,740
Pool	280,707	-	-	-	-	280,707
Non-departmental	1,007,752	-	-	-	-	1,007,752
Capital outlay	1,181,749	621,666	350,001	537,248	-	2,690,664
Debt service:						
Principal, interest and fiscal charges	-	287	-	-	1,215,651	1,215,938
<b>TOTAL EXPENDITURES</b>	<u>7,500,076</u>	<u>952,339</u>	<u>350,001</u>	<u>539,181</u>	<u>1,215,651</u>	<u>10,557,248</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(363,381)	(55,975)	11,810	513,536	(1,215,531)	(1,109,541)
<b>OTHER FINANCING SOURCES (USES)</b>						
Operating transfer in (out)	-	(125,656)	-	(1,089,857)	1,215,513	-
<b>NET CHANGE IN FUND BALANCE</b>	(363,381)	(181,631)	11,810	(576,321)	(18)	(1,109,541)
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>6,290,614</u>	<u>924,685</u>	<u>286,524</u>	<u>5,328,620</u>	<u>1,097,867</u>	<u>13,928,310</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$5,927,233</u>	<u>\$ 743,054</u>	<u>\$ 298,334</u>	<u>\$ 4,752,299</u>	<u>\$ 1,097,849</u>	<u>\$12,818,769</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, 2011**

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

Change in fund balance-total governmental funds	\$ (1,109,541)
Revenues that do not provide current financial resources are not included in the fund financial statements.	(9,777)
The acquisition of capital assets requires the use of current financial resources but has no effect on net assets.	1,733,994
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.	(6,000)
The cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense in the statement of activities.	(960,647)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	650,000
Some expenses do not require the use of current financial resources and, therefore, are not reported as an expenditure in governmental funds:	
Accrued interest	4,157
Amortization of debt issuance costs and discounts	(23,315)
Net pension obligation	(179,123)
	(198,283)
Change in net assets of governmental activities	\$ 99,748

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, 2011**

**ASSETS**

**CURRENT ASSETS**

Cash and investments

\$ 87,345

**NET ASSETS**

**CURRENT LIABILITIES**

Funds held in escrow

\$ 87,345

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

**CITY OF SUNSET HILLS, MISSOURI**  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2011

**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. 14, *The Financial Reporting Entity* (GASB 14), 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:

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

B. **BASIC FINANCIAL STATEMENTS** - continued

*Statement of Net Assets* - The statement of net assets 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 assets and reports depreciation expense in the statement of activities. The net assets of the City are broken down into three categories 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

*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 assets and has reported all revenues and the cost of providing services under the accrual basis of accounting in the statement of activities. 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 assets 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, and the County Road Fund. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

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

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

Governmental funds financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

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.

D. **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.

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

D. **CAPITAL ASSETS - continued**

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.

E. **ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires the City to make estimates and assumptions that affect the reported amounts of assets and liabilities at fiscal year-end and revenues and expenditures during the reporting period. Actual results could vary from the estimates that management uses.

F. **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.

G. **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 \$116,563 has been accrued in the General Fund. At December 31, 2011, employees had accumulated sick leave of \$437,152. Employees are not paid for accumulated sick leave upon termination; accordingly, the related potential liability has not been recorded.

H. **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 assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the unamortized portion of applicable premium or discount. Bond issuance costs, including underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, and issuance costs are included in interest expense.

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

I. **NET ASSETS AND FUND EQUITY**

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

When both restricted 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 assets reports \$3,785,145 of restricted net assets, all 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** - Resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.

**Restricted** - Resources with constraints placed on the use of resources are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

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

**Assigned** - Resources neither restricted nor committed for which a government has a stated intended use as 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** - Resources which cannot be properly classified in one of the other four categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. Unassigned balances also include negative balances in the governmental funds reporting resources restricted for specific programs.

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.

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

J. **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. The City's investments are carried at fair value.

2. **BUDGETS AND BUDGETARY ACCOUNTING**

The City adopts an annual operating budget on a cash basis for all governmental funds except the Debt Service Fund.

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, 2011, the carrying amount of the City's bank deposits totaled \$5,757,274 with bank balances of \$5,937,918. The bank balance was covered by federal depository insurance or collateralized by securities held by the pledging financial institution in the City's name.

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, 2011, upon which the 2011 levy was based on an assessed value for real, personal and public utility property of \$345,873,363. The City's tax rate was levied at the following rates per \$100 of assessed valuation for the General Fund:

	<u>RATE</u>
Residential	\$.054
Agricultural	.060
Commercial	.057
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 credit risk or custodial credit risk. In addition, the policy allows for the investment debt proceeds held by bond trustees, to be invested in accordance with the bond documents.

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, 2011, the City had the following concentrations exceeding five percent of total investments:

	<u>Investment Fair Value</u>	<u>Percent of Portfolio</u>
Federal Home Loan Bank	\$ 750,000	11.52%
Federal National Mtg. Assn.	1,500,000	23.04
Federated Treasury Obligations Fund #702	4,259,359	65.44

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:

<u>Investment Classification</u>	<u>Maturity Range</u>	<u>Minimum Allocation</u>	<u>Maximum Allocation</u>
Short-term	0-2 years	50%	100%
Intermediate	3-5 years	0	50
Long-term	5-10 years	0	25

Interest Rate Risk: Information about the sensitivity of the fair values of the City's investment (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

<u>Investment Type</u>	<u>Fair Value</u>	<u>0 - 2 Years</u>	<u>3 - 5 Years</u>	<u>6 - 10 Years</u>	<u>Rating</u>
U.S. Government Agency Securities	\$ <u>2,250,000</u>	\$ <u>-</u>	\$ <u>2,250,000</u>	\$ <u>-</u>	AAA

6. CAPITAL ASSETS

Capital asset activity for the primary government for the year ended December 31, 2011 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	\$ 1,494,521	\$ -	\$ -	\$ 1,494,521
Construction in progress	567,414	788,152	(567,414)	788,152
Total capital assets, not being depreciated	<u>2,061,935</u>	<u>788,152</u>	<u>(567,414)</u>	<u>2,282,673</u>
Capital assets, being depreciated:				
Land improvements	1,241,588	-	( 50,000)	1,191,588
Buildings and improvements	12,880,117	398,274	-	13,278,391
Vehicles and equipment	2,572,555	312,006	( 140,047)	2,744,514
Infrastructure	5,166,220	816,476	-	5,982,696
Total capital assets, being depreciated	<u>21,860,480</u>	<u>1,526,756</u>	<u>( 190,047)</u>	<u>23,197,189</u>
Less accumulated depreciation for:				
Land improvements	( 352,597)	( 61,388)	50,000	( 363,985)
Buildings and improvements	(1,537,737)	( 401,128)	-	(1,938,865)
Vehicles and equipment	(1,061,452)	( 306,055)	120,547	(1,246,960)
Infrastructure	( 533,783)	( 192,076)	-	( 725,859)
Total accumulated depreciation	<u>(3,485,569)</u>	<u>( 960,647)</u>	<u>170,547</u>	<u>(4,275,669)</u>
Total capital assets, being depreciated, net	<u>18,374,911</u>	<u>566,109</u>	<u>( 19,500)</u>	<u>18,921,520</u>
Total governmental activities	<u>\$ 20,436,846</u>	<u>\$ 1,354,261</u>	<u>\$ ( 586,914)</u>	<u>\$ 21,204,193</u>

6. **CAPITAL ASSETS** - continued

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

Governmental activities:	
General government	\$ 12,483
Public works	344,739
Public safety	144,992
Municipal court	960
Parks and recreation	243,965
Pool	<u>213,508</u>
Total depreciation expense - governmental activities	<u>\$ 960,647</u>

7. **LONG-TERM LIABILITIES**

**Sales Tax Refunding Revenue Bonds Series 2004** - were issued to refund outstanding Sales Tax Revenue Bonds Series 1996. Principal and interest are provided from proceeds of a sales tax levy. The bonds were issued with annual installments of \$105,574 to \$129,300 through February 15, 2016 bearing interest at 2.0% to 4.5%.

Annual debt service payments are as follows:

<u>SALES TAX REFUNDING REVENUE BONDS</u>			
<u>YEAR</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
2012	\$ 105,000	\$ 21,680	\$ 126,680
2013	105,000	17,415	122,415
2014	110,000	12,913	122,913
2015	115,000	7,988	122,988
2016	120,000	2,700	122,700
Total	<u>\$ 555,000</u>	<u>\$ 62,696</u>	<u>\$ 617,696</u>

**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 actual balance of the reserve fund was \$1,097,729 at December 31, 2011.

7. **LONG-TERM DEBT** - continued

**Certificate of Participation Notes Series 2009** - continued

Payments required on these certificates are as follows:

CERTIFICATES OF PARTICIPATION			
YEAR	PRINCIPAL	INTEREST	TOTAL
2012	\$ 560,000	\$ 526,102	\$ 1,086,102
2013	580,000	511,177	1,091,177
2014	590,000	496,539	1,086,539
2015	605,000	479,351	1,084,351
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	750,000	330,664	1,080,664
2022	780,000	299,479	1,079,479
2023	810,000	266,081	1,076,081
2024	845,000	230,490	1,075,490
2025	885,000	192,420	1,077,420
2026	925,000	151,685	1,076,685
2027	965,000	108,326	1,073,326
2028	1,830,000	43,002	1,873,002
Total	<u>\$ 13,480,000</u>	<u>\$ 5,697,366</u>	<u>\$ 19,177,366</u>

Long-term liability activity for the year ended December 31, 2011, was as follows:

	BALANCE, BEGINNING OF YEAR	ADDITIONS	REDUCTIONS	BALANCE, END OF YEAR	WITHIN ONE YEAR
Governmental activities:					
Sales Tax Refunding Revenue Bonds	\$ 655,000	\$ -	\$ ( 100,000)	\$ 555,000	\$ 105,000
Certificates of Participation	14,030,000	-	( 550,000)	13,480,000	560,000
Discount on Certificate of Participation	(173,340)	-	10,097	(163,243)	-
Net Pension Obligation	-	179,123	-	179,123	-
Total Long-Term Liabilities	<u>\$ 14,511,660</u>	<u>\$ -</u>	<u>\$ ( 639,903)</u>	<u>\$ 14,050,880</u>	<u>\$ 665,000</u>

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

**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, 2011, follows:

Assessed valuation (January 1, 2010)	\$345,873,363
Debt limit - 5% of assessed value	17,293,668
Total debt applicable to debt limit	-
Legal debt margin	<u>\$ 17,293,668</u>

8. **INTERFUND TRANSACTIONS**

The following transfers were made during the fiscal year ending December 31, 2011:

	<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>
Capital Projects Fund	\$ -	\$ 125,656
Storm Water/Parks Fund	-	1,089,857
Debt Service Fund	1,215,513	-

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

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. **RETIREMENT PLAN**

**Plan Description** - The City participates in the Missouri Local Government Employees Retirement System (LAGERS), an agent multiple-employer public retirement system that acts as a common investment and administrative agent for local government entities in Missouri. LAGERS is a defined benefit pension plan which provides retirement, disability and death benefits to plan members and beneficiaries.

LAGERS was created and is governed by statute, section RSMo 70.600 - 70.755. As such, it is the system's 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 401a and it is tax exempt.

10. **RETIREMENT PLAN - continued**

**Plan Description - continued**

LAGERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to LAGERS, P.O. Box 1665, Jefferson City, MO 65102 or by calling 1-800-447-4334.

**Funding Status** - The City's full-time employees do not contribute to the pension plan. The June 30<sup>th</sup> statutorily required contributions rates are 7.0% (general) and 5.7% (police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the City. The contribution provisions of the City are established by state statute.

**Annual Pension Cost (APC) and Net Pension Obligation (NPO)** - The City's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$	312,218
Interest on net pension obligation		4,831
Adjustment to annual required contribution		<u>(3,453)</u>
Annual pension cost		313,596
Actual contributions		<u>(198,883)</u>
Increase (decrease) in NPO		114,713
NPO beginning of year		<u>64,410</u>
NPO end of year	\$	<u><u>179,123</u></u>

The annual required contribution (ARC) was determined as part of the February 29, 2009 and February 28, 2010 annual actuarial valuations using the entry of age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually; (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation; (c) additional projected salary increases ranging from 0% to 6% per year, depending on age and division, attributable to seniority/merit; and (d) pre-retirement mortality based on 75% of the RP-2000 Combined Healthy Table set back 0 years for men and 0 years for women; and (e) post-retirement mortality based on 105% of the 1994 Group Annuity Mortality table set back 0 year for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The amortization period at February 28, 2009 was 30 years for the General division and 30 years for the Police division. The amortization period as of February 28, 2010 was 30 years for the General division and 30 years for the Police division.

Three year trend information follows:

<u>For The Years Ended June 30</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2009	\$144,559	100%	\$ -
2010	223,646	71.2	64,410
2011	313,596	63.4	179,123

10. **RETIREMENT PLAN - continued**

Schedule of funding progress follows:

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Entry Age Actuarial Value Of Assets	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL As A Percentage Of Covered Payroll
2/29/2009	\$5,658,041	\$5,931,518	\$ 273,477	95%	\$2,967,109	9%
2/28/2010	6,176,773	6,693,046	516,273	92	3,299,293	16
2/28/2011	6,949,265	7,535,692	586,427	92	3,296,544	18

Note: The above assets and actuarial accrued liability do not include the assets and present value of benefits associated with the Benefit Reserve Fund and the Casualty Reserve Fund. The actuarial assumptions were changed in conjunction with the February 28, 2011 annual actuarial valuations. For a complete description of the actuarial assumptions used in the annual valuations, please contact the LAGERS office in Jefferson City.

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.

ING 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. **BUDGETARY EXPENDITURES IN EXCESS OF APPROPRIATIONS**

Expenditures in the Stormwater/Park Fund of \$842,015 exceeded appropriations of \$827,600 by \$14,415.

13. **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.

14. **SUBSEQUENT EVENTS**

In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through May 11, 2012, 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, 2011**

	BUDGET		BUDGETARY BASIS ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>REVENUES</b>				
Taxes	\$ 4,784,800	\$ 4,784,800	\$ 4,874,845	\$ 90,045
Licenses and permits	885,250	885,250	747,128	(138,122)
Fines and court costs	360,000	360,000	367,006	7,006
Investment income	40,000	40,000	27,737	(12,263)
Charges for service	752,393	752,393	605,001	(147,392)
Grants	953,352	572,329	449,565	(122,764)
Miscellaneous	14,000	14,000	22,997	8,997
TOTAL REVENUES	<u>7,789,795</u>	<u>7,408,772</u>	<u>7,094,279</u>	<u>(314,493)</u>
<b>EXPENDITURES</b>				
Current:				
General government	427,475	432,475	423,117	9,358
Public works	1,194,778	1,194,778	1,158,855	35,923
Public safety	2,241,711	2,241,711	2,210,850	30,861
Municipal court	160,795	170,795	170,017	778
Parks and recreation	1,097,187	1,161,187	1,069,442	91,745
Pool	267,300	284,300	280,680	3,620
Non-departmental	1,047,908	1,047,908	1,051,176	(3,268)
Capital outlay	1,396,459	1,134,114	981,143	152,971
TOTAL EXPENDITURES	<u>7,833,613</u>	<u>7,667,268</u>	<u>7,345,280</u>	<u>321,988</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(43,818)	(258,496)	(251,001)	<u>\$ 7,495</u>
<b>FUND BALANCES - BEGINNING OF YEAR</b>	<u>5,946,850</u>	<u>5,946,850</u>	<u>5,946,850</u>	
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 5,903,032</u>	<u>\$ 5,688,354</u>	<u>\$ 5,695,849</u>	
<b>FUND BALANCE - END OF YEAR - BUDGET BASIS</b>			\$ 5,695,849	
Adjustments to the budget basis:				
Revenues			639,015	
Expenditures			<u>(407,631)</u>	
<b>FUND BALANCE - END OF YEAR - GAAP BASIS</b>			<u>\$ 5,927,233</u>	

**CITY OF SUNSET HILLS, MISSOURI**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**COUNTY ROAD FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	BUDGET		BUDGETARY BASIS ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>REVENUE</b>				
Taxes	\$ 350,000	\$ 350,000	\$ 343,613	\$ (6,387)
<b>EXPENDITURES</b>				
Capital outlay	350,000	350,000	350,001	(1)
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	-	-	(6,388)	<u>\$ (6,388)</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>163,027</u>	<u>163,027</u>	<u>163,027</u>	
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 163,027</u>	<u>\$ 163,027</u>	<u>\$ 156,639</u>	
<b>FUND BALANCE - END OF YEAR - BUDGET BASIS</b>			\$ 156,639	
Adjustments to the budget basis:				
Revenue			141,695	
Expenditures			<u>-</u>	
<b>FUND BALANCE - END OF YEAR - GAAP BASIS</b>			<u>\$ 298,334</u>	

**CITY OF SUNSET HILLS, MISSOURI**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**  
**STORM WATER/ PARKS FUND**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

	BUDGET		BUDGETARY BASIS ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
<b>REVENUES</b>				
Taxes	\$ 1,090,000	\$ 1,090,000	\$ 1,066,857	\$ (23,143)
Investment income	-	7,800	15,984	8,184
<b>TOTAL REVENUES</b>	<u>1,090,000</u>	<u>1,097,800</u>	<u>1,082,841</u>	<u>(14,959)</u>
<b>EXPENDITURES</b>				
Parks and recreation	-	-	1,933	(1,933)
Capital outlay	-	827,600	840,082	(12,482)
<b>TOTAL EXPENDITURES</b>	<u>-</u>	<u>827,600</u>	<u>842,015</u>	<u>(14,415)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfer out	(1,090,001)	(1,090,001)	(1,089,857)	(144)
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	(1)	(819,801)	(849,031)	<u>\$ (29,230)</u>
<b>FUND BALANCE - BEGINNING OF YEAR</b>	<u>5,145,097</u>	<u>5,145,097</u>	<u>5,145,097</u>	
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 5,145,096</u>	<u>\$ 4,325,296</u>	<u>\$ 4,296,066</u>	
<b>FUND BALANCE -</b>				
<b>END OF YEAR - BUDGET BASIS</b>			\$ 4,296,066	
Adjustments to the budget basis:				
Revenues			153,399	
Expenditures			<u>302,834</u>	
<b>FUND BALANCE -</b>				
<b>END OF YEAR - GAAP BASIS</b>			<u>\$ 4,752,299</u>	