

CITY OF LANCASTER, MISSOURI

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Aldermen
City of Lancaster, Missouri
Lancaster, Missouri

We have audited the accompanying financial statements of City of Lancaster, Missouri, as of and for the year ended December 31, 2016, 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 the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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 error or fraud.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position—cash basis of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lancaster, Missouri, as of December 31, 2016, and the respective changes in financial position—cash basis, thereof for the year then ended in accordance with the basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Lancaster, Missouri's basic financial statements. The management's discussion and analysis and budgetary comparison information on pages 3-8 and 23-24, which are the responsibility of management, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 10, 2017, on our consideration of the City of Lancaster, 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* in considering City of Lancaster, Missouri's internal control over financial reporting and compliance.



John W. Gillum, CPA, LLC
Certified Public Accountant
Kirksville, Missouri
July 10, 2017

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Management's Discussion and Analysis—Unaudited

Our discussion and analysis of City of Lancaster, Missouri's financial performance provides an overview of the City's financial activities for the fiscal year ended December 31, 2016. Please read it in conjunction with the City's financial statements, which begin on page 9.

Financial Highlights

- The assets of the City of Lancaster exceeded its liabilities at December 31, 2016, by \$768,745 (*net position*). Of this amount, \$712,885 (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net position increased by \$166,408.
- The City's general fund ended the year with a fund balance of \$199,026, which represents 105% of recurring revenue of the fund.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Position—Cash Basis and Statement of Activities—Cash Basis (on pages 9 and 10) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 11. For governmental activities, these statements tell how these services were financed in the short-term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 9. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Position—Cash Basis and the Statement of Activities—Cash Basis report information about the City as a whole and about its activities in a way that helps answer this question.

Reporting the City as a Whole (Continued)

These two statements report the City's *net position* and changes in them. You can think of the City's net position—the difference between assets and liabilities—as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other nonfinancial factors, however, to assess the *overall health* of the City.

In the Statement of Net Position—Cash Basis and the Statement of Activities—Cash Basis, we divide the City into two kinds of activities:

- **Governmental activities**—Most of the City's basic services are reported here, including streets, public safety, parks and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.
- **Business-type activities**—The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer operations are reported here.

Reporting the City's Most Significant Funds

The fund financial statements begin on page 11 and provide detailed information about the most significant funds—not the City as a whole. The City's two kinds of funds—*governmental* and *proprietary*—use different accounting approaches.

- **Governmental funds**—Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are nonspendable, restricted, committed, assigned, or unassigned. These classifications of fund balance show the nature and extent of constraints placed on the City's fund balances by law, creditors, Board of Aldermen, and the City's annually adopted budget. Unassigned fund balance is available for spending for any purpose. These funds are reported using a method which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- **Proprietary funds**—When the City charges customers for the services it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position—Cash Basis and the Statement of Activities—Cash Basis. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The City's combined net position increased by \$166,408. Governmental activities increased the City's net position by \$38,758 and business-type activities increased the City's net position by \$127,650. Our analysis below focuses on the net position (Table 1) and changes in net position (Table 2) of the City's governmental and business-type activities.

Net Position (Table 1)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>
<u>ASSETS</u>						
Current and other assets	\$ <u>229,019</u>	\$ <u>190,261</u>	\$ <u>539,726</u>	\$ <u>412,076</u>	\$ <u>768,745</u>	\$ <u>602,337</u>
Total Assets	\$ <u>229,019</u>	\$ <u>190,261</u>	\$ <u>539,726</u>	\$ <u>412,076</u>	\$ <u>768,745</u>	\$ <u>602,337</u>
<u>NET POSITION</u>						
Restricted	\$ -	\$ -	\$ 55,860	\$ 56,124	\$ 55,860	\$ 56,124
Unrestricted	<u>229,019</u>	<u>190,261</u>	<u>483,866</u>	<u>355,952</u>	<u>712,885</u>	<u>546,213</u>
Total Net Assets	\$ <u>229,019</u>	\$ <u>190,261</u>	\$ <u>539,726</u>	\$ <u>412,076</u>	\$ <u>768,745</u>	\$ <u>602,337</u>

Net position of the City's governmental activities increased by 20% (\$229,019 compared to \$190,261). The net position of business-type activities increased by 30% (\$539,726 compared to \$412,076).

Changes in Net Position (Table 2)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>	<u>Current</u>	<u>Prior</u>
Revenues:						
Program revenues:						
Charges for services	\$ 9,540	\$ 9,443	\$ 430,557	\$ 429,609	\$ 440,097	\$ 439,052
Operating grants and contributions	107,756	104,017	4,497	10,702	112,253	114,719
Capital grants	12,716	-	-	-	12,716	-
General revenues:						
Property taxes	55,125	52,457	-	-	55,125	52,457
Other taxes	35,273	38,892	-	-	35,273	38,892
Investment income	2,343	1,894	4,392	3,882	6,735	5,776
Other	<u>2,945</u>	<u>2,851</u>	<u>-</u>	<u>-</u>	<u>2,945</u>	<u>2,851</u>
Total Revenue	225,698	209,554	439,446	444,193	665,144	653,747
Expenses:						
General government	31,191	35,430	-	-	31,191	35,430
Public safety	24,975	20,201	-	-	24,975	20,201
Streets	116,215	89,750	-	-	116,215	89,750
Parks and recreation	11,389	17,716	-	-	11,389	17,716
Cemetery	595	598	-	-	595	598
Payments on debt	-	-	29,516	29,374	29,516	29,374
Water	-	-	158,125	176,112	158,125	176,112
Trash	-	-	34,578	34,090	34,578	34,090
Sewer	-	-	89,577	137,442	89,577	137,442
Capital outlay	<u>2,575</u>	<u>18,545</u>	<u>-</u>	<u>56,405</u>	<u>2,575</u>	<u>74,950</u>
Total Expenses	186,940	182,240	311,796	433,423	498,736	615,663
Change in net position before transfers	38,758	27,314	127,650	10,770	166,408	38,084
Transfer in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	38,758	27,314	127,650	10,770	166,408	38,084
Net position - beginning	190,261	162,947	412,076	401,306	602,337	564,253
Net position - ending	\$ 229,019	\$ 190,261	\$ 539,726	\$ 412,076	\$ 768,745	\$ 602,337

The City's total revenues increased by \$11,397 (1 percent). The total cost of all programs decreased by \$116,927 (18 percent). Our analysis below separately considers the operations of the governmental and business-type activities.

THE CITY'S FUNDS

As the City completed this year, its governmental funds (as presented in the balance sheet on page 11) reported a combined fund balance of \$199,026, which is a 7% increase over last year's total of \$185,891.

General Fund Budgetary Highlights

The City's General Fund's fund balance of \$199,026 reported on page 11 differs from the General Fund's *budgetary* fund balance of \$186,946 reported in the budgetary comparison schedule on page 23. Actual revenues were \$6,606 more than budgeted; actual expenditures were \$5,474 less than budgeted. This left the general fund \$12,080 under budget.

Capital Assets

For the year ended December 31, 2016, due to its use of the cash basis of accounting, the City did not have capital assets recorded at historical cost in the City's financial statements.

Debt

At year end, the City had \$196,000 in bonds outstanding versus \$218,000 last year—a decrease of 10 percent—as shown in Table 3.

Long-Term Debt (Table 3)

	<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Bonds Payable, Beginning	\$ 218,000	\$ 239,000	\$ 218,000	\$ 239,000
Bonds Retired	<u>(22,000)</u>	<u>(21,000)</u>	<u>(22,000)</u>	<u>(21,000)</u>
Bonds Payable, Ending	\$ <u>196,000</u>	\$ <u>218,000</u>	\$ <u>196,000</u>	\$ <u>218,000</u>

Economic Factors and Next Year's Budget and Rates

Assessed valuations, tax rates and other factors affecting governmental fund revenues are expected to remain consistent with past years.

Sewer users and rates are expected to remain at levels consistent with what is now being experienced.

Requests for Information

This financial report is designed to provide a general overview of the City of Lancaster's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City Hall, Lancaster, Missouri, Attention: City Clerk or by telephone at (660) 457-3022 during regular business hours.

James Foster, Mayor
City of Lancaster

BASIC FINANCIAL STATEMENTS

City of Lancaster, Missouri
Statement of Net Position—Cash Basis
December 31, 2016

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 223,319	\$ 459,566	\$ 682,885
Investments	5,700	24,300	30,000
Restricted cash & cash equivalents	<u> -</u>	<u> 55,860</u>	<u> 55,860</u>
Total Assets	<u>\$ 229,019</u>	<u>\$ 539,726</u>	<u>\$ 768,745</u>
 NET POSITION			
Restricted	\$ -	\$ 55,860	\$ 55,860
Unrestricted	<u>229,019</u>	<u>483,866</u>	<u>712,885</u>
Total Net Position	<u>\$ 229,019</u>	<u>\$ 539,726</u>	<u>\$ 768,745</u>

See Accompanying Notes to Financial Statements

City of Lancaster, Missouri
Statement of Activities—Cash Basis
For the Year Ended December 31, 2016

	Program Revenues			Net (Expenses) Revenue & Changes in Net Assets		
	Expenses	Charges for Services	Op Grants/ Contrib.	Capital Grants/ Contrib.	Business Type Activities	Total
<u>FUNCTIONS/PROGRAMS</u>						
Governmental activities						
General government	\$ 31,191	\$ 3,981	\$ 9,167	\$ -	\$ (18,043)	\$ (18,043)
Public safety	24,975	75	-	-	(24,900)	(24,900)
Streets	116,215	-	94,382	-	(21,833)	(21,833)
Parks and recreation	11,389	5,484	4,207	12,716	11,018	11,018
Cemetery	595	-	-	-	(595)	(595)
Capital outlay	2,575	-	-	-	(2,575)	(2,575)
Total governmental activities	186,940	9,540	107,756	12,716	(56,928)	(56,928)
Business-type activities						
Water	158,125	255,371	-	-	97,246	97,246
Sewer	89,577	140,227	4,497	-	55,147	55,147
Trash	34,578	34,959	-	-	381	381
Payments on long-term debt	29,516	-	-	-	(29,516)	(29,516)
Total business-type activities	311,796	430,557	4,497	-	123,258	123,258
Total primary government	\$ 498,736	\$ 440,097	\$ 112,253	\$ 12,716	(56,928)	66,330
<u>GENERAL REVENUES</u>						
Taxes						
Property					55,125	55,125
Franchise					12,696	12,696
Surtax					1,419	1,419
Sales tax					18,355	18,355
Payment in lieu of tax					2,803	2,803
Investment income					2,343	2,343
Other					2,945	2,945
Total general revenues					95,686	95,686
Change in net position					38,758	166,408
Net position—Beginning					190,261	602,337
Net position—Ending					\$ 229,019	\$ 768,745

See Accompanying Notes to Financial Statements

City of Lancaster, Missouri
 Balance Sheet—Cash Basis
 Governmental Funds
 December 31, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
 <u>ASSETS</u>			
Cash and cash equivalents	\$ 193,326	\$ 29,993	\$ 223,319
Investments	<u>5,700</u>	<u>-</u>	<u>5,700</u>
 TOTAL ASSETS	 <u>\$ 199,026</u>	 <u>\$ 29,993</u>	 <u>\$ 229,019</u>
 <u>FUND BALANCES</u>			
Unassigned	\$ <u>199,026</u>	\$ <u>29,993</u>	\$ <u>229,019</u>
 TOTAL FUND BALANCES	 <u>\$ 199,026</u>	 <u>\$ 29,993</u>	 <u>\$ 229,019</u>

See Accompanying Notes to Financial Statements

City of Lancaster, Missouri
Statement of Revenues, Expenditures, And
Changes in Fund Balances—Cash Basis
Governmental Funds
For The Year Ended December 31, 2016

	<u>General</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES:			
Taxes			
Property taxes	\$ 44,215	\$ 10,910	\$ 55,125
Sales tax	14,684	3,671	18,355
Franchise tax	12,696	-	12,696
Surtax	1,419	-	1,419
Road and bridge tax	10,524	-	10,524
Motor vehicle—fees	3,176	-	3,176
User fees—gas tax	19,387	-	19,387
Motor vehicle—sales tax	61,295	-	61,295
Licenses & permits	3,981	-	3,981
Investment earnings	2,144	199	2,343
Grants	9,167	12,716	21,883
User fees—rent	-	5,484	5,484
Fines	75	-	75
Payment in lieu of taxes	2,803	-	2,803
Donations	-	4,207	4,207
Other	2,195	750	2,945
Total Revenues	<u>187,761</u>	<u>37,937</u>	<u>225,698</u>
EXPENDITURES			
General government	31,191	-	31,191
Streets	116,215	-	116,215
Public safety	24,975	-	24,975
Cemetery	595	-	595
Parks and recreation	-	11,389	11,389
Capital outlay	1,650	925	2,575
Total Expenditures	<u>174,626</u>	<u>12,314</u>	<u>186,940</u>
Excess (deficiency) of revenues over (under) expenditures	13,135	25,623	38,758
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Change in fund balance	13,135	25,623	38,758
Fund balances—beginning	<u>185,891</u>	<u>4,370</u>	<u>190,261</u>
Fund balances—ending	<u>\$ 199,026</u>	<u>\$ 29,993</u>	<u>\$ 229,019</u>

See Accompanying Notes to Financial Statements

City of Lancaster, Missouri
Statement of Net Position—Cash Basis
Proprietary Funds
December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total Proprietary Funds</u>
<u>ASSETS</u>			
Current Assets:			
Cash and cash equivalents	\$ 329,118	\$ 130,448	\$ 459,566
Investments	<u>24,300</u>	<u>-</u>	<u>24,300</u>
Total Current Assets	353,418	130,448	483,866
Non-Current Assets:			
Restricted cash and cash equivalents	<u>55,860</u>	<u>-</u>	<u>55,860</u>
TOTAL ASSETS	<u>\$ 409,278</u>	<u>\$ 130,448</u>	<u>\$ 539,726</u>
 <u>NET POSITION</u>			
Restricted	\$ 55,860	\$ -	\$ 55,860
Unrestricted	<u>353,418</u>	<u>130,448</u>	<u>483,866</u>
TOTAL FUND BALANCES	<u>\$ 409,278</u>	<u>\$ 130,448</u>	<u>\$ 539,726</u>

See Accompanying Notes to Financial Statements

City of Lancaster, Missouri
Statement of Revenues, Expenditures,
And Changes in Fund Net Position—Cash Basis
Proprietary Funds
For The Year Ended December 31, 2016

	<u>Water</u>	<u>Sewer</u>	<u>Total Proprietary Funds</u>
OPERATING REVENUES:			
Water sales	\$ 233,651	\$ -	\$ 233,651
Sewer sales	-	139,803	139,803
Trash collections	34,959	-	34,959
Other	<u>21,720</u>	<u>424</u>	<u>22,144</u>
Total Operating Revenues	290,330	140,227	430,557
OPERATING EXPENDITURES			
Cost of sales and services	136,511	71,927	208,438
Administration	21,614	17,650	39,264
Trash collections	<u>34,578</u>	<u>-</u>	<u>34,578</u>
Total Expenditures	<u>192,703</u>	<u>89,577</u>	<u>282,280</u>
Operating income (loss)	97,627	50,650	148,277
Non-operating revenue (expense)			
Grant income	-	4,497	4,497
Investment earnings	3,316	1,076	4,392
Payments on long-term debt	<u>(29,516)</u>	<u>-</u>	<u>(29,516)</u>
Total non-operating revenue (expense)	<u>(26,200)</u>	<u>5,573</u>	<u>(20,627)</u>
Income (loss) before transfers	71,427	56,223	127,650
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	71,427	56,223	127,650
Net position—beginning	<u>337,851</u>	<u>74,225</u>	<u>412,076</u>
Net position—ending	<u>\$ 409,278</u>	<u>\$ 130,448</u>	<u>\$ 539,726</u>

See Accompanying Notes to Financial Statements

City of Lancaster, Missouri
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Lancaster, Missouri operates under a Council-Manager form of government. The City's major operations include public safety (police and fire), streets, sanitation, culture and recreation, public improvements, and general administrative services. In addition, the City owns and operates water and sewer systems.

The City's financial statements are prepared in accordance with the cash basis of accounting, which is a basis of accounting other than generally accepted accounting principles (GAAP). The more significant accounting policies used by the City are discussed below.

A. REPORTING ENTITY

These financial statements present the City (the primary government). The City does not have component units required to be included in the City's reporting entity.

B. BASIC FINANCIAL STATEMENTS—GOVERNMENT-WIDE STATEMENTS

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, park, cemetery, streets, economic development and general administrative services are classified as governmental activities. The City's water and sewer services are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on the cash basis of accounting.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (general government, public safety, streets, etc.). The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (general government, public safety, streets, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reports capital-specific grants.

The net cost (by function or business-type activity) is normally covered by general revenue (property, sales or gas taxes, intergovernmental revenues, interest income, etc).

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

City of Lancaster, Missouri
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS—FUND FINANCIAL STATEMENTS

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, fund equity, revenues and expenditures/expenses.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. The City electively added funds, as major funds, which either had debt outstanding or specific community focus. The nonmajor funds are combined in a column in the fund financial statements.

1. Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The City reports these major governmental funds and fund types:

- a. The general fund is the City's primary operating fund. It is used to account for and report all financial resources except those required to be accounted for in another fund.

2. Proprietary Funds:

The focus of proprietary fund measurement is upon determination of operating income, changes in net position, financial position and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The City reports the following proprietary fund types:

- a. Enterprise funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is financed with debt that is solely secured by a pledge of the net revenues. The activities reported in these funds are reported as business-type activities in the government-wide financial statements. The Water and Sewer funds operate the City's water and sewer system, which primarily serves City residents.

City of Lancaster, Missouri
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

1. Cash Basis:

Both governmental and business-type activities in the government-wide and governmental fund financial statements and the proprietary fund financial statements are presented on the cash basis of accounting. Under the cash basis of accounting, revenues are recorded when received and expenditures are recognized when paid. Acquisitions for capital assets and payments on long-term debt are recorded as expenditures, with no presentation of fixed assets or liabilities on the statement on net position.

E. FINANCIAL STATEMENT AMOUNTS

1. Cash and Cash Equivalents:

The City has defined cash and cash equivalents to include cash on hand and demand deposits.

2. Investments

The City's investments include certificates of deposit with original maturities of greater than three months.

3. Property Tax Calendar and Revenues:

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the City. Property taxes attach as an enforceable lien on property as of January 1 of the year of the levy. Taxes are levied on October 1, and payable by December 31. All unpaid taxes become delinquent January 1, of the following year. The county collects the property tax and remits it to the City on a monthly basis.

The assessed valuation of the tangible taxable property (excluding state assessed railroad and utilities) for the calendar year 2015 for purposes of local taxation was \$4,771,453.

The tax levy per \$100 of assessed valuation of tangible taxable property for the calendar year 2015 for purposes of local taxation was:

	<u>2015</u>
General Fund	.9712
Park Fund	<u>.2000</u>
	<u>1.1712</u>

City of Lancaster, Missouri
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

4. Compensated Absences:

City employees are entitled to certain compensated absences based on the length of employment. Compensated absences are recorded as expenditures when paid.

5. Defining Operating Revenues and Expenses:

The City's proprietary funds distinguish between operating and nonoperating revenues and expenses. Operating revenues and expenses of the City's water and sewer funds consist of charges for services and the costs of providing those services, including capital outlay and excluding payments on long-term debt. All other revenues and expenses are reported as nonoperating.

6. Government-wide and Proprietary Fund Net Position:

Government-wide and proprietary fund net position are divided into two components:

- a. **Restricted net position**—consists of net position that is restricted by the City's creditors (for example, through debt covenants), by grantors (both federal and state) or by other enabling legislation.
- b. **Unrestricted**—all other net position is reported in this category.

7. Governmental Fund Balances:

In the governmental fund financial statements, fund balances are classified as follows:

- a. **Nonspendable**—Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. **Restricted**—Externally enforceable limitations on use; amounts that can be spent only for specific purposes; limitations are imposed by creditors, grantors, or laws and regulations of other governments.
- c. **Committed**—Self-imposed limitations that must be set in place prior to the end of the period; amounts that can be used only for specific purposes determined by a formal action of the Board of Aldermen; removal of the commitment must also be approved by a formal action of the Board of Aldermen.
- d. **Assigned**—Limitation resulting from intended use; amounts that are designated by the Board of Aldermen for a particular purpose but are not spendable until there is a majority vote approval by the Board of Aldermen.
- e. **Unassigned**—All amounts not included in other spendable classifications.

The City does not have nonspendable or assigned governmental fund balances to report. In addition, the City has not formally adopted a stabilization policy.

City of Lancaster, Missouri
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

8. Use of Restricted Resources:

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the City's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. In governmental funds, the City's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

NOTE 2. BUDGETARY INFORMATION

Formal budgetary accounting is employed as a management control for all funds of the City. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the General Fund, Special Revenues Funds, and Proprietary Funds, and the same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on the cash basis of accounting.

The Board of Aldermen follows these procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with State Statutes, prior to December 31, the City Clerk submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the legislative (council) level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to January 1, the budget is legally enacted through passage of an ordinance.
4. All unencumbered budget appropriations, except project budgets, lapse at the end of each fiscal year.
5. The Board of Aldermen may authorize supplemental appropriations during the year.
6. The City does not utilize encumbrance accounting with regard to budget or accounting functions.
7. Appropriations and the authority to expend funds lapse on December 31.

City of Lancaster, Missouri
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. CASH

State statutes require that the City's deposits be collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of December 31, 2016, all bank balances on deposit are entirely insured or collateralized with securities.

B. INVESTMENTS

The City's investments at December 31, 2016, consist of:

<u>Investment Type</u>	<u>Maturity</u>	<u>Amount</u>
Certificate of Deposit	02/17/2017	\$ 24,300
Certificate of Deposit	12/16/2017	<u>5,700</u>
		<u>\$ 30,000</u>

C. RESTRICTED ASSETS

The amounts reported as restricted assets consist of the following:

<u>Water Fund</u>	
<u>2003 Bond issue</u>	
Debt service	\$ 13,355
Bond reserve	42,500
Construction fund	<u>5</u>
Total Restricted Assets	<u>\$ 55,860</u>

City of Lancaster, Missouri
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 3. DETAILED NOTES ON ALL FUNDS

D. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the year:

Bonds payable at January 1, 2016	\$ 218,000
Bonds retired	<u>(22,000)</u>
Bonds payable December 31, 2016	<u>\$ 196,000</u>

Bonds payable at December 31, 2016, consist of the following issues:

\$425,000 Water Works System Revenue Bonds Series 2003; interest at 2.40%; due in annual installments varying from year to year until maturity on July 1, 2024	<u>\$ 196,000</u>
--	-------------------

Long-term debt maturities for the succeeding five years and beyond are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 22,000	\$ 4,704	\$ 26,704
2018	23,000	4,176	27,176
2019	23,000	3,624	26,624
2020	24,000	3,072	27,072
2021	25,000	2,496	27,496
2022-24	<u>79,000</u>	<u>3,864</u>	<u>82,864</u>
Total	<u>\$ 196,000</u>	<u>\$ 21,936</u>	<u>\$ 217,936</u>

Payments on long-term debt are reflected in the cash basis statement of activities, as follows:

Principal	\$ 22,000
Interest	5,232
Bond Fees	<u>2,284</u>
Payments on long-term debt	<u>\$ 29,516</u>

Waterworks Revenue Bonds constitute special obligations of the City of Lancaster, Missouri solely secured by a lien on and pledge of the net revenues of the water system.

The revenue bonds are collateralized by the revenue of the water system. The resolutions provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Any remaining revenues may then be used for any lawful purpose. The City of Lancaster, Missouri is in compliance with all significant resolutions.

City of Lancaster, Missouri
Notes to Financial Statements
For the Year Ended December 31, 2016

NOTE 4. RISK MANAGEMENT

Significant risk of loss is covered by commercial insurance for the City. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this insurance coverage in any of the past three fiscal years.

NOTE 5. ADVERTISING

Advertising costs are expensed as incurred. During the year, the City expended \$310 for advertising.

NOTE 6. COMMITMENTS AND CONTINGENCIES

COMMITMENTS--NONE

CONTINGENCIES

The City has received notification of potential noncompliance with certain environmental laws and regulations. The City Administration and those charged with governance, along with legal counsel, are addressing the matter. The effect to the City due to the potential noncompliance has not been determined.

OTHER SUPPLEMENTAL INFORMATION

City of Lancaster, Missouri
 Budgetary Comparison Schedule—
 Cash Basis—General Fund
 December 31, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance
	<u>Original</u>	<u>Final</u>		with final Budget Positive (Negative)
REVENUES				
Taxes				
Property taxes	\$ 44,000	\$ 44,000	\$ 44,215	\$ 215
Sales tax	14,000	14,000	14,684	684
Franchise tax	13,000	13,000	12,696	(304)
Surtax	1,600	1,600	1,419	(181)
Road and bridge tax	10,500	10,500	10,524	24
Payment in lieu of taxes	3,400	3,400	2,803	(597)
Motor vehicle—fees	3,000	3,000	3,176	176
User fees—gas tax	20,000	20,000	19,387	(613)
Motor vehicle—sales tax	64,000	64,000	61,295	(2,705)
Licenses and permits	3,800	3,800	3,981	181
Investment earnings	1,545	1,545	2,144	599
Grants	500	500	9,167	8,667
Fines	300	300	75	(225)
Other	<u>1,510</u>	<u>1,510</u>	<u>2,195</u>	<u>685</u>
Total revenues	181,155	181,155	187,761	6,606
EXPENDITURES				
General government	33,000	33,000	31,191	1,809
Streets	119,000	119,000	116,215	2,785
Public safety	25,000	25,000	24,975	25
Cemetery	600	600	595	5
Capital outlay	<u>2,500</u>	<u>2,500</u>	<u>1,650</u>	<u>850</u>
Total expenditures	<u>180,100</u>	<u>180,100</u>	<u>174,626</u>	<u>5,474</u>
Excess (deficiency) of revenues over (under) expenditures	1,055	1,055	13,135	12,080
Transfers in (out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	1,055	1,055	13,135	12,080
Fund balance—Beginning	<u>185,891</u>	<u>185,891</u>	<u>185,891</u>	<u>-</u>
Fund balance—Ending	<u>\$ 186,946</u>	<u>\$ 186,946</u>	<u>\$ 199,026</u>	<u>\$ 12,080</u>

See Accompanying Notes To Budgetary Comparison Schedule

City of Lancaster, Missouri
Notes to Budgetary Comparison Schedule
December 31, 2016

Budget Law

The City prepares its annual operating budget under the provisions of RSMO Chapter 67. In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to January 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following December 31.
- a. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to January 1.
- b. Subsequent to the public hearings but no later than seven days prior to January 1, the budget is adopted by resolution of the Board of Aldermen.

The legal level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund.

All transfers of appropriations between departments and supplemental appropriations require Board of Aldermen approval.

Basis of Accounting

The budget is prepared on the modified cash basis of accounting, the conversion to the cash basis, is not considered material to the overall budget to actual presentation.

FEDERAL COMPLIANCE SECTION

JOHN W. GILLUM, CPA, LLC

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INDEPENDENT AUDITOR'S 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

To the Board of Aldermen
City of Lancaster, Missouri
Lancaster, Missouri

We have audited, in accordance with the 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, the cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lancaster, Missouri, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise City of Lancaster, Missouri's basic financial statements, and have issued our report thereon dated July 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Lancaster, Missouri's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Lancaster, Missouri's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Lancaster, Missouri's internal control.

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 functions, 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lancaster, Missouri's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



John W. Gillum, CPA, LLC
Certified Public Accountant
Kirksville, Missouri
July 10, 2017