

CITY OF WARSAW, MISSOURI
BASIC FINANCIAL STATEMENTS
Year Ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Warsaw
Warsaw, Missouri

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the City of Warsaw, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

Honorable Mayor and Board of Aldermen
City of Warsaw
Warsaw, Missouri

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the City of Warsaw, Missouri, as of December 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Honorable Mayor and Board of Aldermen
City of Warsaw
Warsaw, Missouri

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 19, 2017, on our consideration of the City of Warsaw, Missouri's internal control over financial reporting and 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 the 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 the City of Warsaw, Missouri's internal control over financial reporting and compliance.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
May 19, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT’S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016

The management’s discussion and analysis of the City of Warsaw’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 17.

Financial Highlights

- The net position of the City’s governmental activities increased by \$384,949 for the year as a result of current year activities. The net position of the City’s business activities increased by \$27,094 for the year.
- The assets of the City exceeded its liabilities as of December 31, 2016, by \$18,524,253 (net position). Of this amount \$2,549,107 was unrestricted and may be used to meet future obligations of the City.

Using This Annual Report

This annual report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities 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 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.

Government-Wide Financial Statements

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 and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets, liabilities, and deferred inflows/outflows of resources using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year’s revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City’s net position and changes in them. The City’s net position – the difference between assets and deferred outflows and liabilities and deferred inflows – is one way to measure the City’s financial health, or financial position. Over time, increases or decreases in the City’s net position are indicators of whether its financial health is improving or deteriorating.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016

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

- Governmental Activities – Most of the City's basic services are reported here. Taxes are the primary source of financing for 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 services are provided here.

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds and not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the Board of Aldermen establishes many other funds to help it control and manage money for a particular purpose or to show that it is meeting legal responsibilities for using certain taxes and grants.

- 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 available for spending. These funds are reported using an accounting method called modified accrual accounting, 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 the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds are shown in a reconciliation following the fund financial statements.
- Enterprise Funds – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in enterprise funds. Enterprise funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016**

Government-Wide Financial Analysis

NET POSITION

The following table presents the condensed Statement of Net Position for the City as of December 31, 2016, and December 31, 2015:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total December 31, 2016</u>	<u>Total December 31, 2015</u>
Assets				
Current and other assets	\$ 2,698,251	\$ 975,611	\$ 3,673,862	\$ 3,296,337
Capital assets, net	<u>10,456,981</u>	<u>9,671,921</u>	<u>20,128,902</u>	<u>20,496,598</u>
	13,155,232	10,647,532	23,802,764	23,792,935
Deferred Outflow of Resources				
Deferred pension outflows	<u>286,514</u>	<u>8,493</u>	<u>295,007</u>	<u>137,364</u>
Liabilities				
Current liabilities	202,149	350,983	553,132	678,142
Long-term liabilities	<u>1,874,733</u>	<u>3,053,687</u>	<u>4,928,420</u>	<u>5,121,988</u>
	2,076,882	3,404,670	5,481,552	5,800,130
Deferred Inflow of Resources				
Deferred pension inflows	<u>90,163</u>	<u>1,803</u>	<u>91,966</u>	<u>17,959</u>
Net Position				
Net investment in capital assets	8,759,743	6,368,935	15,128,678	15,047,890
Restricted	699,401	147,067	846,468	849,497
Unrestricted	<u>1,815,557</u>	<u>733,550</u>	<u>2,549,107</u>	<u>2,214,823</u>
	<u>\$ 11,274,701</u>	<u>\$ 7,249,552</u>	<u>\$ 18,524,253</u>	<u>\$ 18,112,210</u>

Total net position of the City increased by \$412,043 for the year due to current year activity. Total liabilities for the City have decreased by \$318,578. Restricted net position of the City totaled \$846,468 as of December 31, 2016. This amount represents monies that are restricted for debt service, transportation projects.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016**

CHANGE IN NET POSITION

	Governmental Activities	Business-Type Activities	Total Year Ended December 31, 2016	Total Year Ended December 31, 2015
REVENUES				
Program Revenues				
Charges for services	\$ 556,650	\$ 959,472	\$ 1,516,122	\$ 1,353,406
Capital grants and contributions	433,881	-	433,881	1,033,397
General Revenues				
Sales taxes	2,164,545	-	2,164,545	2,108,064
Ad valorem taxes	112,101	-	112,101	118,768
Intangible tax	248	-	248	699
Motor vehicle and gas taxes	84,130	-	84,130	83,435
Surtax	14,305	-	14,305	10,567
Franchise fees	175,458	-	175,458	194,644
Interest	9,345	7	9,352	15,808
Other revenue	105,367	-	105,367	113,294
Transfers	(8,833)	8,833	-	-
TOTAL REVENUES	3,647,197	968,312	4,615,509	5,032,082
EXPENSES				
Administrative	565,197	-	565,197	590,915
Police	410,059	-	410,059	445,124
Recreation	90,177	-	90,177	84,290
Community building	46,375	-	46,375	70,932
Community development	375,042	-	375,042	237,879
Solid waste	101,236	-	101,236	112,514
Airport	207,318	-	207,318	165,262
Park	251,487	-	251,487	471,730
Pool	176,659	-	176,659	183,105
Golf course	220,421	-	220,421	235,349
Street	638,275	-	638,275	317,696
Special events	-	-	-	8,382
Debt service	180,002	-	180,002	167,816
Water and sewer	-	941,218	941,218	995,530
TOTAL EXPENSES	3,262,248	941,218	4,203,466	4,086,524
INCREASE IN NET POSITION	\$ 384,949	\$ 27,094	\$ 412,043	\$ 945,558

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016**

Governmental Activities

Governmental activities increased the net position of the City by \$384,949. Tax revenues for the City were \$2,550,787, which represents 70% of the financing of these activities. Program revenues for the functions totaled \$990,531 or approximately 27% of the financing. The following table shows the cost of the City's programs as well as each programs net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the taxpayers by each of these functions.

**NET COST OF THE CITY OF WARSAW'S
GOVERNMENTAL ACTIVITIES**

	Total Cost of Services	Net Cost of Services
Administrative	\$ 565,197	\$ 455,770
Police	410,059	386,697
Recreation	90,177	54,352
Community building	46,375	46,375
Community development	375,042	280,865
Solid waste	101,236	(5,717)
Airport	207,318	(191,783)
Pool	176,659	124,581
Park	251,487	251,487
Golf course	220,421	58,673
Street	638,275	630,415
Debt service	180,002	180,002
	<u>\$ 3,262,248</u>	<u>\$ 2,271,717</u>

Business-Type Activities

Business-type activities increased the City's net position by \$27,094.

Financial Analysis of the City's Funds

The combined fund balances of the City's governmental funds as of December 31, 2016, were \$2,622,162. The General Fund increased by \$201,343. The Transportation Fund increased by \$47,986. The Capital Improvement Fund increased by \$54,807. The Debt Service Fund decreased by \$17,995. The Parks Fund decreased by \$57,834.

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016**

General Fund Budgetary Highlights

The following schedule presents the budgeted activity and actual activity for the year ended December 31, 2016:

	Original Budget	Final Budget	Actual
REVENUES			
Taxes			
Ad valorem taxes	\$ 116,500	\$ 112,101	\$ 112,101
Intangible tax	250	248	248
City sales tax	893,166	979,565	979,565
Franchise fees	182,017	175,458	175,458
Surtax	10,000	14,305	14,305
	1,201,933	1,281,677	1,281,677
Licenses and Permits			
Occupational licenses	54,000	41,432	41,432
Building permits	5,000	18,097	18,097
Other	585	4,807	4,807
	59,585	64,336	64,336
Intergovernmental Revenues			
MoDOT grant	-	7,500	7,500
Charges for Services			
Golf course	189,100	161,748	161,748
Trash	103,480	106,953	106,953
Recreation	32,650	35,825	35,825
	325,230	304,526	304,526
Fines and Forfeitures			
City court fines	23,650	23,237	23,237
CVC fees	70	125	125
	23,720	23,362	23,362
Miscellaneous			
Interest	8,000	9,345	9,345
Rental income	43,600	45,091	45,091
Other	1,000	30,704	30,704
	52,600	85,140	85,140
TOTAL REVENUES	1,663,068	1,766,541	1,766,541

**MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016**

General Fund Budgetary Highlights (continued)

	Original Budget	Final Budget	Actual
EXPENDITURES			
Current			
Administrative	485,343	493,172	493,172
Police	462,892	436,285	436,285
Recreation	90,149	86,370	86,370
Community building	63,150	46,375	46,375
Community development	44	44	44
Solid waste	100,064	100,225	100,225
Golf course	281,686	312,140	312,140
Debt Service	-	18,070	18,070
Transfers to other funds	68,265	92,017	92,017
TOTAL EXPENDITURES	<u>1,551,593</u>	<u>1,584,698</u>	<u>1,584,698</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>\$ 111,475</u>	<u>\$ 181,843</u>	<u>\$ 181,843</u>

The governmental and business-type activities of the City continue to increase the City's net position with improvements in infrastructure and capital equipment for expanded community, social and economic growth through budgeting, bidding and financing policies to expand and maintain services, to improve the quality of life and to provide an atmosphere for the promotion of private and entrepreneur business growth.

Capital Assets and Debt Administration

Capital Assets

Capital assets of the governmental activities were \$10,456,981 net of depreciation as of December 31, 2016. This represents a \$21,442 increase, net of depreciation, from the prior year. Capital assets for business-type activities were \$9,671,921 net of depreciation as of December 31, 2016. This represents net capital asset disposals of \$54,806 and \$336,524 in depreciation expense during the current year. Accumulated depreciation was reduced by \$2,192 as a result of the capital asset disposal.

Debt

Total debt of the governmental activities as of December 31, 2016, was \$1,728,119, which includes debt retirements, long-term liabilities reductions of \$255,728, and additional debt of \$62,100.

Total debt of the business-type activities as of December 31, 2016, was \$3,302,986, which includes debt retirement of \$257,027.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016

Economic Factors and Next Year's Budget

As stated in the past five years, the 2017 budget will continue to be conservative and focus more on expenditures more in line with their respective funds. The goal is to have each fund, over the next few years, create enough revenue to fund its own needs with a lesser amount of subsidy from other funds. This move is critical at this time as the sales tax revenues continue to show moderate increases.

Revenues from the water and sewer system will continue to build a cash reserve while also funding projects. In 2015 the City retired the debt that financed to construct of the wastewater treatment facility. The City will closely evaluate utility revenues semi-annually in an effort to continue to have the utilities operate in a business fashion and address the needs of the utilities. In 2017 a plan needs to be developed for the Utility Fund to start the process of gradually moving some of the debt service that the Capital Improvement Fund is currently paying on the MAMU debt back to the Utility Fund. This will allow the Capital Improvement Fund to improve its cash position. Over the past years, the debt service for the 94B SRF has been taken from the Capital Improvement Fund at an average of \$125,000 annually. Now that this debt has been retired, the Capital Improvement Fund is in a position to start developing a larger cash reserve and move the fund towards investing in community development needs like sidewalks, storm sewer and other physical capital improvements for the community. The City should continue to use these funds as match for grant projects.

A majority of the waterfront recreation improvements are complete. With this near completion, a shift to improving services to the interior of the community should be an utmost priority to the City government in order to achieve complete community revitalization. The waterfront improvements should not be abandoned but be lesser in scope than the past. Partnerships should be created to develop larger projects that combine city in-kind funds with partner expenditures. Creative use of these two match funds may lead to larger projects that can led to large scale projects that enhance the current trail system and increase visitation.

With the new Comprehensive Plan in place, the city should pursue private development. The plan has sections that focus on land use, business recruitment and a transportation improvement plan. These three sections of the Comprehensive Plan are valuable tools to continue improvements in Warsaw. Combined with the waterfront recreation improvements, transportation improvements and implementing the land use will create a livable community that promotes commercial and residential development that can link to the growing trails system and improved multi-modal transportation routes. These livable improvements will set Warsaw off from other surrounding communities and attract businesses and residents to the City as the plan outlines.

Combined with the debt service relief to the Capital Improvement Fund, the City should be able to generate funds to develop a model community along the Highway 65 tourist and commerce corridor. With its strategic location along this highway, combined with the waterfront trail improvements linking all its park system and downtown, the City has a very marketable destination for sporting events, more festivals, trail related events and casual visitation. Wayfinding signs should be another focus of the city to easily move visitors to all the community venues.

MANAGEMENT'S DISCUSSION AND ANALYSIS
CITY OF WARSAW, MISSOURI
December 31, 2016

Warsaw needs to take advantage of its location, especially during lower fuel costs, and encourage visitors to come to the community. Encouraged travel to the City will generate additional sales tax and tourism bed tax revenue. The increased tax revenues can be used to achieve all that has been set forth in this management report, plus use additional funds for advertising the community.

Contacting the City's Financial Management

For additional information or questions, please contact any of the following members of City management at:

City of Warsaw
181 Harrison, Box 68
Warsaw, Missouri 65355
(660) 438-5522
cityclerk@welcometowarsaw.com

Eddie Simons, Mayor
Randy Pogue, City Administrator
Jessica Kendall, City Clerk

CITY OF WARSAW, MISSOURI
STATEMENT OF NET POSITION
December 31, 2016

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current			
Cash and cash equivalents - unrestricted	\$ 1,677,564	\$ 587,416	\$ 2,264,980
Ad valorem taxes receivable, net	126,019	-	126,019
Utilities receivable, net	16,177	131,633	147,810
Intergovernmental receivable	293,149	-	293,149
Other receivable, net	35,370	-	35,370
Sales tax receivable	351,947	-	351,947
Inventory	16,766	57,226	73,992
Prepaid expenses	29,045	1,540	30,585
Noncurrent			
Restricted cash and cash equivalents	152,214	197,796	350,010
Capital Assets:			
Non-depreciable	559,978	-	559,978
Depreciable, net	9,897,003	9,671,921	19,568,924
TOTAL ASSETS	13,155,232	10,647,532	23,802,764
DEFERRED OUTFLOW OF RESOURCES			
Deferred pension outflows	286,514	8,493	295,007
LIABILITIES			
Current			
Accounts payable	30,352	11,601	41,953
Accrued expenses	44,837	2,152	46,989
Deposits payable	-	51,924	51,924
Court bonds payable	900	-	900
Accrued interest payable	-	18,859	18,859
Current maturities of long-term debt	126,060	266,447	392,507
	202,149	350,983	553,132
Noncurrent			
Compensated absences payable	30,881	-	30,881
Arbitrage payable	-	9,312	9,312
Capital leases payable	86,178	-	86,178
Bonds payable	-	2,005,600	2,005,600
Lease certificates of participation payable	1,485,000	1,030,939	2,515,939
Net pension liability	272,674	7,836	280,510
	1,874,733	3,053,687	4,928,420
TOTAL LIABILITIES	2,076,882	3,404,670	5,481,552
DEFERRED INFLOW OF RESOURCES			
Deferred pension inflows	90,163	1,803	91,966
NET POSITION			
Net investment in capital assets	8,759,743	6,368,935	15,128,678
Restricted			
Capital projects	558,087	-	558,087
Debt service	141,314	147,067	288,381
Unrestricted			
	1,815,557	733,550	2,549,107
TOTAL NET POSITION	\$ 11,274,701	\$ 7,249,552	\$ 18,524,253

See accompanying notes.

CITY OF WARSAW, MISSOURI
STATEMENT OF ACTIVITIES
Year Ended December 31, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expenses), Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
Administrative	\$ (565,197)	\$ 109,427	\$ -	\$ -	\$ (455,770)	\$ -	\$ (455,770)
Police	(410,059)	23,362	-	-	(386,697)	-	(386,697)
Recreation	(90,177)	35,825	-	-	(54,352)	-	(54,352)
Community building	(46,375)	-	-	-	(46,375)	-	(46,375)
Community development	(375,042)	-	-	94,177	(280,865)	-	(280,865)
Solid waste	(101,236)	106,953	-	-	5,717	-	5,717
Airport	(207,318)	67,257	-	331,844	191,783	-	191,783
Pool	(176,659)	52,078	-	-	(124,581)	-	(124,581)
Park	(251,487)	-	-	-	(251,487)	-	(251,487)
Golf course	(220,421)	161,748	-	-	(58,673)	-	(58,673)
Street	(638,275)	-	-	7,860	(630,415)	-	(630,415)
Debt service	(180,002)	-	-	-	(180,002)	-	(180,002)
TOTAL GOVERNMENTAL ACTIVITIES	(3,262,248)	556,650	-	433,881	(2,271,717)	-	(2,271,717)
Business-Type Activities							
Water and sewer	(941,218)	959,472	-	-	-	18,254	18,254
TOTAL BUSINESS-TYPE ACTIVITIES	(941,218)	959,472	-	-	-	18,254	18,254
TOTAL GOVERNMENT	\$ (4,203,466)	\$ 1,516,122	\$ -	\$ 433,881	(2,271,717)	18,254	(2,253,463)
General Revenues and Transfers:							
					2,164,545	-	2,164,545
					112,101	-	112,101
					248	-	248
					84,130	-	84,130
					14,305	-	14,305
					175,458	-	175,458
					9,345	7	9,352
					105,367	-	105,367
					(8,833)	8,833	-
					2,656,666	8,840	2,665,506
					Changes in Net Position		
					384,949	27,094	412,043
					10,889,752	7,222,458	18,112,210
					\$ 11,274,701	\$ 7,249,552	\$ 18,524,253

See accompanying notes.

CITY OF WARSAW, MISSOURI
BALANCE SHEET – GOVERNMENTAL FUNDS
December 31, 2016

	Special Revenue Funds					Total Governmental Funds
	General Fund	Transportation Fund	Capital Improvement Fund	Parks Fund	Debt Service Fund	
ASSETS						
Cash and cash equivalents - unrestricted	\$ 896,662	\$ 316,045	\$ 457,597	\$ 7,260	\$ -	\$ 1,677,564
Ad valorem taxes receivable, net	126,019	-	-	-	-	126,019
Sales tax receivable	159,686	51,968	71,052	69,241	-	351,947
Utilities receivable	16,177	-	-	-	-	16,177
Intergovernmental receivable	-	257,726	35,423	-	-	293,149
Other receivables, net	35,370	-	-	-	-	35,370
Inventory	3,691	13,075	-	-	-	16,766
Prepaid expenses	22,652	2,677	688	3,028	-	29,045
Restricted cash and cash equivalents	900	10,000	31,676	-	109,638	152,214
TOTAL ASSETS	\$ 1,261,157	\$ 651,491	\$ 596,436	\$ 79,529	\$ 109,638	\$ 2,698,251
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	\$ 9,840	\$ 5,631	\$ 12,628	\$ 2,253	\$ -	\$ 30,352
Accrued expenses	28,262	5,997	4,045	6,533	-	44,837
Court bonds payable	900	-	-	-	-	900
TOTAL LIABILITIES	39,002	11,628	16,673	8,786	-	76,089
Fund Balances						
Nonspendable:						
Inventory	3,691	13,075	-	-	-	16,766
Prepaid items	22,652	2,677	-	3,028	-	28,357
Restricted for:						
Street infrastructure	-	10,000	-	-	-	10,000
Capital improvement	-	-	548,087	-	-	548,087
Debt service	-	-	31,676	-	109,638	141,314
Assigned to:						
Transportation	-	614,111	-	-	-	614,111
Parks Fund	-	-	-	67,715	-	67,715
Unassigned	1,195,812	-	-	-	-	1,195,812
TOTAL FUND BALANCES	1,222,155	639,863	579,763	70,743	109,638	2,622,162
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,261,157	\$ 651,491	\$ 596,436	\$ 79,529	\$ 109,638	\$ 2,698,251

See accompanying notes.

CITY OF WARSAW, MISSOURI
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT
 OF NET POSITION
 December 31, 2016

Fund balance - total governmental funds	\$ 2,622,162
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds:	
Governmental capital assets	18,239,199
Less accumulated depreciation	<u>(7,782,218)</u>
	10,456,981
The net pension liability and deferred costs are not available to pay for current period expenditures and, therefore, are not reported in the funds:	
Net pension liability	(272,674)
Deferred outflows due to pensions	286,514
Deferred inflows due to pensions	<u>(90,163)</u>
	(76,323)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(1,728,119)</u>
Net position of governmental activities	<u><u>\$ 11,274,701</u></u>

See accompanying notes.

CITY OF WARSAW, MISSOURI
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS
Year Ended December 31, 2016

	Special Revenue Funds					Total Governmental Funds
	General Fund	Transportation Fund	Capital Improvement Fund	Parks Fund	Debt Service Fund	
REVENUES						
Taxes	\$ 1,281,677	\$ 403,963	\$ 438,526	\$ 426,621	\$ -	\$ 2,550,787
Licenses and permits	64,336	-	-	-	-	64,336
Intergovernmental revenues	7,500	339,704	86,677	-	-	433,881
Charges for services	304,526	67,257	-	52,078	-	423,861
Rental income	45,091	-	-	-	-	45,091
Fines and forfeitures	23,362	-	-	-	-	23,362
Interest revenue	9,345	-	-	-	-	9,345
Miscellaneous	30,704	3,888	-	5,725	65,050	105,367
TOTAL REVENUES	1,766,541	814,812	525,203	484,424	65,050	3,656,030
EXPENDITURES						
Current						
Administrative	493,172	-	-	-	-	493,172
Police	436,285	-	-	-	-	436,285
Recreation	86,370	-	-	-	-	86,370
Community building	46,375	-	-	-	-	46,375
Community development	44	-	-	-	-	44
Solid waste	100,225	-	-	-	-	100,225
Airport	-	86,826	-	-	-	86,826
Pool	-	-	-	98,015	-	98,015
Park	-	-	-	364,898	-	364,898
Golf course	312,140	-	-	-	-	312,140
Street	-	378,130	-	-	-	378,130
Capital improvement	-	296,387	487,121	-	-	783,508
Debt service	18,070	-	-	154,048	122,884	295,002
TOTAL EXPENDITURES	1,492,681	761,343	487,121	616,961	122,884	3,480,990
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	273,860	53,469	38,082	(132,537)	(57,834)	175,040
OTHER FINANCING SOURCES (USES)						
Lease proceeds	19,500	-	-	42,600	-	62,100
Operating transfers in (out)	(92,017)	(5,483)	16,725	71,942	-	(8,833)
TOTAL OTHER FINANCING SOURCES (USES)	(72,517)	(5,483)	16,725	114,542	-	53,267
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	201,343	47,986	54,807	(17,995)	(57,834)	228,307
FUND BALANCE, January 1	1,020,812	591,877	524,956	88,738	167,472	2,393,855
FUND BALANCE, December 31	\$ 1,222,155	\$ 639,863	\$ 579,763	\$ 70,743	\$ 109,638	\$ 2,622,162

See accompanying notes.

CITY OF WARSAW, MISSOURI
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 Year Ended December 31, 2016

Net change in fund balances - total governmental funds \$ 228,307

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

Governmental funds report capital outlays as expenditures. However, in
 the Statement of Activities the cost of these assets is allocated over their
 estimated useful lives on a straight line basis and reported as depreciation
 expense. The following is the detail of the amount by which capital outlays
 exceeded depreciation for the year.

Capital outlay	638,097
Depreciation	(616,655)
	<u>21,442</u>

Some expenditures reported in the governmental funds represent the use
 of current financial resources and were recognized in the statement of
 activities when incurred.

Change in pension related costs	(58,428)
Change in compensated absences	2,171
	<u>(56,257)</u>

The issuance of long-term debt provides current financial resources to
 governmental funds. The repayment of principal on long-term debt is a
 use of current financial resources of governmental funds. The following
 is the detail of the net effect of these differences.

Lease proceeds	(62,100)
Repayment of principal on long-term debt	253,557
	<u>191,457</u>

Change in Net Position of Governmental Activities	<u>\$ 384,949</u>
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See accompanying notes.

CITY OF WARSAW, MISSOURI
STATEMENT OF NET POSITION – ENTERPRISE FUND
December 31, 2016

	<u>Water and Sewer Fund</u>
ASSETS	
Current Assets	
Cash and cash equivalents	\$ 587,416
Utilities receivable, net	131,633
Inventory	57,226
Prepaid expenses	<u>1,540</u>
TOTAL CURRENT ASSETS	777,815
Restricted Assets	
Cash and cash equivalents	<u>197,796</u>
TOTAL RESTRICTED ASSETS	197,796
Property, Plant and Equipment	
Buildings and improvements	5,500
Water lines and wells	2,035,298
Sewer lines and plant	11,332,169
Major moveable equipment	<u>730,410</u>
	14,103,377
Less accumulated depreciation	<u>(4,431,456)</u>
TOTAL PROPERTY, PLANT AND EQUIPMENT	<u>9,671,921</u>
TOTAL ASSETS	10,647,532
DEFERRED OUTFLOW OF RESOURCES	
Deferred pension outflows	<u>8,493</u>
TOTAL DEFERRED OUTFLOW OF RESOURCES	8,493

See accompanying notes.

CITY OF WARSAW, MISSOURI
STATEMENT OF NET POSITION – ENTERPRISE FUND (continued)
December 31, 2016

	<u>Water and Sewer Fund</u>
LIABILITIES	
Current Liabilities	
Accounts payable	11,601
Accrued expenses	2,152
Accrued interest payable	18,859
Customer deposits	51,924
Current maturities of long-term debt	<u>266,447</u>
TOTAL CURRENT LIABILITIES	350,983
Long-Term Liabilities	
Revenue bonds payable	2,005,600
Lease purchase payable	1,030,939
Arbitrage payable	9,312
Net pension liability	<u>7,836</u>
TOTAL LONG-TERM LIABILITIES	<u>3,053,687</u>
TOTAL LIABILITIES	3,404,670
DEFERRED INFLOW OR RESOURCES	
Deferred pension inflows	<u>1,803</u>
TOTAL DEFERRED PENSION INFLOWS	1,803
NET POSITION	
Net investment in capital assets	6,368,935
Restricted	147,067
Unrestricted	<u>733,550</u>
TOTAL NET POSITION	<u><u>\$ 7,249,552</u></u>

See accompanying notes.

CITY OF WARSAW, MISSOURI
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION – ENTERPRISE FUND
Year Ended December 31, 2016

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 959,472
TOTAL OPERATING REVENUES	<u>959,472</u>
OPERATING EXPENSES	
Salaries & wages	22,178
Employee benefits	12,137
Materials and supplies	13,027
Utilities	71,531
Repairs and maintenance	51,907
Insurance	18,387
Depreciation	336,524
Professional services	305,969
Miscellaneous	4,194
TOTAL OPERATING EXPENSES	<u>835,854</u>
OPERATING INCOME	123,618
NONOPERATING REVENUES (EXPENSES)	
Interest income	7
Interest expense	(105,364)
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(105,357)</u>
NET INCOME BEFORE OPERATING TRANSFERS	18,261
NET OPERATING TRANSFERS IN	<u>8,833</u>
NET INCOME	27,094
NET POSITION, January 1	<u>7,222,458</u>
NET POSITION, December 31	<u><u>\$ 7,249,552</u></u>

See accompanying notes.

CITY OF WARSAW, MISSOURI
STATEMENT OF CASH FLOWS – ENTERPRISE FUND
Year Ended December 31, 2016

	Water and Sewer Fund
	<u> </u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 952,780
Payments to suppliers	(544,893)
Payments to employees	(32,499)
	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	375,388
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer from other funds	8,833
	<u> </u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	8,833
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Disposal of capital assets	54,806
Principal payments on long-term debt	(257,027)
Interest paid on long-term debt	(108,825)
	<u> </u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(311,046)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	7
	<u> </u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	7
NET INCREASE IN CASH AND CASH EQUIVALENTS	73,182
CASH AND CASH EQUIVALENTS, Beginning of year	712,030
	<u> </u>
CASH AND CASH EQUIVALENTS, End of year	785,212
LESS RESTRICTED CASH AND CASH EQUIVALENTS	(197,796)
UNRESTRICTED CASH AND CASH EQUIVALENTS	<u><u>\$ 587,416</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 123,618
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	336,524
(Increase) decrease in:	
Utilities receivable	(11,230)
Inventory	(57,226)
Prepaid expenses	(669)
Deferred pension outflow	(2,542)
Increase (decrease) in:	
Accounts and other payables	(17,445)
Accrued expenses	(1,336)
Deferred pension inflow	1,803
Net pension liability	3,891
	<u> </u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 375,388</u></u>

See accompanying notes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Warsaw, Missouri, (the City) was incorporated in 1902 under the provisions of the State of Missouri. The City operates under a Board of Aldermen - Mayor form of government and provides the following services as authorized by its charter: public safety, streets, sanitation, airport, recreation, public improvements, planning, and general administrative services. Other services include water and sewer operations.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies.

Financial Reporting Entity

The City of Warsaw, Missouri, is organized under the laws of the State of Missouri and is a primary government, which is governed by an elected Board of Aldermen. As required by accounting principles generally accepted in the United States of America, the City has evaluated the above criteria to determine whether any other entity meets the definition of a component unit and must be included in these financial statements. The City has determined that no other outside entity meets the above criteria and therefore, no other entity has been included as a component unit in the City's financial statements. In addition, the City is not aware of any entity for which the City would be considered as a component unit of that entity.

Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide (the Statement of Net Position and the Statement of Activities) and fund financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements display information about the government as a whole. Interfund activity has been eliminated from these statements to minimize the duplication of internal activities. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for services for support.

In the government-wide Statement of Net Position, both the governmental and business-type activities are consolidated and presented on the full accrual, economic resources basis of accounting. The consolidated presentation incorporates long-term assets and receivables as well as long-term debt and obligations, and it provides information to improve analysis and comparability.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function of the City's governmental and business-type activities. Direct expenses are those that are specifically associated with a program or a function. Program revenues include charges for goods or services offered by the programs and grants and contributions that are restricted to meet operating and capital expenses of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

FUND FINANCIAL STATEMENTS

Separate fund financial statements report information on the City's governmental and proprietary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. Consequently, the emphasis on near-term inflows and outflows of resources do not present the long-term impact of transactions. Conversely, the proprietary fund statements incorporate the accrual basis of accounting and focus on the change in total economic resources. This presentation records long-term assets and liabilities, and recognizes revenues and expenses when transactions occur, regardless of their impact on the flow of cash. Since the accounting differs significantly between the governmental funds and the proprietary funds, it is necessary to convert the governmental fund data to arrive at the government-wide financial statements. Therefore, reconciliations have been provided following the Governmental Funds Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance identifying categories that required conversion from the fund statements.

The City reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Transportation Fund: The Transportation Fund of the City is used to account for resources restricted, committed or assigned for repair and maintenance activities within the City.

Capital Improvement Fund: The Capital Improvement Fund is used to account for the Capital Improvement Sales Tax and other resources restricted, committed or assigned for improvement projects.

Debt Service Fund: The Debt Service Fund of the City is used to account for taxes and payments related to the 1996 General Obligation Industrial Bond issue.

Parks Fund: The Parks Fund is used to account for resources restricted, committed or assigned to the swimming pool and park system.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The City reports the following major proprietary fund:

Water and Sewer Fund: The Water and Sewer Fund accounts for the activities and capital improvements of the City's water and sewer operations.

Capital Assets

Capital assets include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, storm sewers, and similar items) and are included in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets, excluding land, are defined by the City as assets with a cost of \$5,000 or greater and an estimated useful life of at least one year. All land purchases are capitalized regardless of cost. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair market value on the date received. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

In conformity with GASB 34, infrastructure, such as streets and storm sewers, has been capitalized. Additionally, the city elected to depreciate its infrastructure assets. Depreciation is provided in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis. The service lives by type of asset are as follows:

Buildings and improvements	30 years
Sewer lines and treatment plant	50 years
Water lines and wells	50 years
Major moveable equipment	5 - 10 years
Infrastructure	30 - 50 years

Expenses for maintenance and repairs are charged to expense; renewals and betterments are capitalized.

Pooled Cash and Cash Equivalents

The City pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. For purposes of the statement of cash flows, cash equivalents are defined as deposits available on demand or with an original maturity of less than three months at the time of purchase.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at cost using the first-in, first-out method.

Compensated Absences

City personnel policy allows employees to accumulate 30 days of vacation leave which vests with the employee. Utilization of accumulated vacation and sick leave by employees in future years is not expected to have a material impact on City expenditures in any one year. Compensated absences are recorded as a liability in the Statement of Net Position.

Use of Estimates

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

Interest Capitalization

Interest expense that relates to the cost of acquiring or constructing fixed assets in the Enterprise Funds is capitalized. Interest expense incurred in connection with construction of capital assets has been reduced by interest earned on the investment of funds borrowed for construction in accordance with Governmental Accounting Standards Board (GASB) Statement Section 1400-120-137 – *Capitalization of Interest Costs*. There was no interest capitalized during the current fiscal year.

Revenue Recognition – Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on November 1 and are due and payable at that time. All unpaid taxes levied November 1 become delinquent after December 31 of that year.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance Classification

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on constraints imposed on the use of these resources as follows:

Nonspendable fund balance – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted fund balance – This classification reflects the constraints imposed on resources either a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance – These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions of the Board of Aldermen – the government’s highest level of decision making authority. Those committed amounts cannot be used for any other purpose unless the Board removes the specified use by taking the same type of action imposing the commitment.

Assigned fund balance – This classification reflects the amounts constrained by the City’s “intent” to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include all remaining amounts (except negative balances) that are reported in the governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

Unassigned fund balance – This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

In circumstances when a disbursement is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

Net Position

In the government-wide and enterprise fund financial statements, equity is displayed in three components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restricted – This consists of net position that is legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Unrestricted – This consists of net position that does not meet the definition of restricted or net investment in capital assets.

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City first applies restricted net position.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Currently, the City has one item that qualifies for reporting in this category, deferred amounts relating to employer contributions to the retirement plan.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category, deferred pension inflows relating to the retirement plan on the Statement of Net Position. These amounts are recognized as an inflow of resources in the period that the amounts become available.

Pensions

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

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE B – CASH AND CASH EQUIVALENTS

State statutes require that the City’s deposits be insured or 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.

NOTE C – RECEIVABLES

The City's receivables are presented net of an allowance for doubtful accounts as follows:

	Gross Receivable	Allowance	Net Receivable
AD VALOREM TAXES RECEIVABLE			
General Fund	\$ 133,833	\$ 7,814	\$ 126,019
SALES TAXES RECEIVABLE			
General Fund	\$ 159,686	\$ -	\$ 159,686
Transportation Fund	51,968	-	51,968
Parks Fund	69,241	-	69,241
Capital Improvement Fund	71,052	-	71,052
	<u>\$ 351,947</u>	<u>\$ -</u>	<u>\$ 351,947</u>
UTILITIES RECEIVABLE			
Water and Sewer Fund	\$ 153,480	\$ 21,847	\$ 131,633
General Fund	16,177	-	16,177
	<u>\$ 169,657</u>	<u>\$ 21,847</u>	<u>\$ 147,810</u>
INTERGOVERNMENTAL RECEIVABLE			
Transportation Fund	\$ 257,726	\$ -	\$ 257,726
Capital Improvement Fund	35,423	-	35,423
	<u>\$ 293,149</u>	<u>\$ -</u>	<u>\$ 293,149</u>
OTHER RECEIVABLE			
General Fund	\$ 41,471	\$ 6,101	\$ 35,370
	<u>\$ 41,471</u>	<u>\$ 6,101</u>	<u>\$ 35,370</u>

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE D – RESTRICTED ASSETS

Business-Type Activities

The 1994 Water and Sewer Revenue Bond (fully paid), and the 2009 and 2012 Water and Sewer Revenue Bond ordinances established amounts required to be deposited in certain sinking and reserve fund accounts. All required deposits to these funds have been made.

These special reserves consist of cash and cash equivalents and are reported in the accompanying Statement of Net Position as restricted cash and cash equivalents, and restricted net position. Restricted assets also include cash and cash equivalents restricted for water and sewer system improvements and customer meter deposits. These restrictions are as follows:

	Restricted Cash and Cash Equivalents	Restricted Net Position
1994 Bond Principal and Interest	\$ 22,459	\$ 22,459
1994 Bond Depreciation and Replacement	44,861	44,861
1994 Bond Arbitrage Reserve	9,312	-
2012 Bond Principal and Interest	20,889	20,889
2009 Bond Principal and Interest	58,858	58,858
Customer Deposits	41,417	-
Total Business-Type Activities	<u>\$ 197,796</u>	<u>\$ 147,067</u>

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE D – RESTRICTED ASSETS (continued)

Governmental Activities

Cash and cash equivalents, fund balance, and net position have been restricted in the following funds and activities:

	<u>Restricted Cash and Cash Equivalents</u>	<u>Restricted Fund Balance</u>	<u>Restricted Net Position</u>
GENERAL FUND			
Court bonds	\$ 900	\$ -	\$ -
TRANSPORTATION FUND			
Street infrastructure	10,000	10,000	10,000
CAPITAL IMPROVEMENT FUND			
Capital improvement projects	-	548,087	548,087
2012 COP Lease Revenue Reserve Fund	31,676	31,676	31,676
DEBT SERVICE FUND			
Debt service	<u>109,638</u>	<u>109,638</u>	<u>109,638</u>
Total Governmental Activities	<u>\$ 152,214</u>	<u>\$ 699,401</u>	<u>\$ 699,401</u>

NOTE E – LONG-TERM LIABILITIES – BUSINESS-TYPE ACTIVITIES

Combined Water and Sewer Fund long-term liabilities consists of the 2009 Combined Water and Sewerage System Revenue Bonds, 2012 Combined Waterworks and Sewerage System Revenue Bonds, the 2005 Missouri Association of Municipal Utilities certificates of participation, and capital leases.

2009 Combined Water and Sewerage System Revenue Bonds - ARRA

In 2011, the City issued \$2,030,300 in Direct Loan Program – American Recovery and Reinvestment Act (ARRA) combined waterworks and sewerage system revenue bonds, Series 2009, for the purpose of extending and improving the City’s combined waterworks and sewerage system. The bonds bear interest at 1.49%. The principal and interest payments are due January 1 and July 1 of each year. Bonds may be called at any time for redemption under various provisions outlined in the bond ordinance.

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE E – LONG-TERM LIABILITIES – BUSINESS-TYPE ACTIVITIES (continued)

Debt service requirements for the 2009 revenue bonds are listed in the following table:

Year Ended December 31,	Principal	Interest	.25% Admin Fee	Total
2017	\$ 96,000	\$ 15,570	\$ 3,744	\$ 115,314
2018	98,200	14,131	3,504	115,835
2019	100,400	12,660	3,258	116,318
2020	102,700	11,155	3,007	116,862
2021	105,000	9,617	2,751	117,368
2022	107,400	8,044	2,488	117,932
2023	109,800	6,434	2,220	118,454
2024	112,400	4,788	1,945	119,133
2025	114,900	3,105	1,664	119,669
2026	117,500	1,383	1,377	120,260
2027	120,200	2,017	1,083	123,300
2028	122,900	1,412	783	125,095
2029	125,700	794	475	126,969
2030	64,400	161	161	64,722
	<u>\$ 1,497,500</u>	<u>\$ 91,271</u>	<u>\$ 28,460</u>	<u>\$ 1,617,231</u>

2012 Combined Waterworks and Sewerage System Revenue Bonds

In 2012, the City issued Direct Loan Program – Combined Waterworks and Sewerage System Revenue Bonds. Series 2012, for the purpose of extending and improving the City’s combined waterworks and sewerage system. The bonds bear interest at 1.25%. The principal and interest payments are due January 1 and July 1 of each year. Bonds may be called at any time for redemption under various provisions outlined in the bond ordinance. At December 31, 2016, the City has issued \$733,817 of the maximum \$739,000 bond issue.

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE E – LONG-TERM LIABILITIES – BUSINESS-TYPE ACTIVITIES (continued)

Debt service requirements for the Series 2012 Revenue Bonds are listed in the following table:

Year Ended December 31,	Principal	Interest	Administrative Fees	Total
2017	\$ 34,000	\$ 7,931	\$ 3,173	\$ 45,104
2018	34,000	7,506	3,003	44,509
2019	35,000	7,081	2,833	44,914
2020	36,000	6,638	2,655	45,293
2021	36,000	6,188	2,475	44,663
2022	37,000	5,738	2,295	45,033
2023	38,000	5,269	2,107	45,376
2024	38,000	4,794	1,917	44,711
2025	39,000	4,319	1,727	45,046
2026	40,000	3,825	1,530	45,355
2027	40,000	3,325	1,330	44,655
2028	41,000	2,825	1,130	44,955
2029	42,000	2,306	923	45,229
2030	42,000	1,781	713	44,494
2031	44,000	1,250	500	45,750
2032	44,000	700	280	44,980
2033	18,100	111	45	18,256
	<u>\$ 638,100</u>	<u>\$ 71,587</u>	<u>\$ 28,636</u>	<u>\$ 738,323</u>

2005A MAMU Lease Purchase

On July 28, 2005, the City entered into a lease purchase agreement with the Missouri Association of Municipal Utilities for the acquisition and construction of sewer system improvements. The lease agreement calls for varying monthly principal payments through 2025 with interest at 3.88%. Current maturity of lease principal is \$108,000.

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE E – LONG-TERM LIABILITIES – BUSINESS-TYPE ACTIVITIES (continued)

The total minimum lease payments required at December 31, 2016, are as follows:

Year Ended December 31,	Principal	Interest	Administrative Fees	Total
2017	\$ 108,000	\$ 41,545	\$ 11,120	\$ 160,665
2018	114,000	37,325	10,403	161,728
2019	120,000	32,738	9,622	162,360
2020	124,000	28,080	8,831	160,911
2021	132,000	23,045	7,976	163,021
2022	137,000	18,100	6,904	162,004
2023	144,000	12,404	6,169	162,573
2024	151,000	6,757	5,212	162,969
2025	91,000	1,166	2,568	94,734
	<u>\$ 1,121,000</u>	<u>\$ 201,160</u>	<u>\$ 68,805</u>	<u>\$ 1,390,965</u>

Capital Lease Agreement – SCADA System

On August 20, 2013, the City entered into a lease purchase obligation to acquire a SCADA system. The lease requires remaining annual payments of \$29,455 and \$18,126, which includes interest, for 2017 and 2018, respectively.

Year Ended December 31,	Principal	Interest	Total
2017	\$ 28,447	\$ 1,008	\$ 29,455
2018	17,939	187	18,126
	<u>\$ 46,386</u>	<u>\$ 1,195</u>	<u>\$ 47,581</u>

These lease purchase agreements provide for cancellation of the lease on the annual renewal date if the City should fail to appropriate funds. However, the City does not foresee exercising its right to cancel. Therefore, these leases are accounted for as noncancellable capital leases in accordance with Governmental Accounting Standards Board (GASB) Section L20, "Leases."

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE E – LONG-TERM LIABILITIES – BUSINESS-TYPE ACTIVITIES (continued)

A summary of the changes in long-term liabilities – business-type activities for the year ended December 31, 2016, is as follows:

	Balance December 31, 2015	Additions	Retirements	Balance December 31, 2016
Long-Term Liabilities				
2009 Revenue Bonds	\$ 1,591,400	\$ -	\$ 93,900	\$ 1,497,500
2012 Revenue Bonds	670,817	-	32,717	638,100
2005A MAMU Certificates of Participation	1,228,000	-	107,000	1,121,000
Capital Lease - SCADA System	69,796	-	23,410	46,386
	<u>\$ 3,560,013</u>	<u>\$ -</u>	<u>\$ 257,027</u>	<u>\$ 3,302,986</u>

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES

Long-term liabilities for governmental activities at December 31, 2016, consists of one certificate of participation, six capital lease obligations, and compensated absences payable.

Certificates of Participation

During 2012, the City issued \$1,845,000 in Certificates of Participation to finance the costs related to construction, furnishing and equipping of a new swimming pool. The 2012 certificates bear interest at 1.35% to 4.75%. Interest payments are due in semi-annual installments on January 1 and July 1 of each year with annual principal payments due July 1 of each year. The annual debt service requirements to amortize the principal on the 2012 Certificates of Participation outstanding at December 31, 2016, are as follows:

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES (continued)

Year Ended December 31,	Principal	Interest	Total
2017	\$ 75,000	\$ 63,352	\$ 138,352
2018	75,000	61,666	136,666
2019	80,000	59,902	139,902
2020	80,000	57,862	137,862
2021	85,000	55,582	140,582
2022	85,000	52,990	137,990
2023	90,000	50,100	140,100
2024	90,000	46,050	136,050
2025	95,000	42,000	137,000
2026	100,000	37,726	137,726
2027	105,000	33,226	138,226
2028	110,000	28,500	138,500
2029	115,000	23,274	138,274
2030	120,000	17,812	137,812
2031	125,000	12,112	137,112
2032	130,000	6,176	136,176
	<u>\$ 1,560,000</u>	<u>\$ 648,330</u>	<u>\$ 2,208,330</u>

Capital Lease Agreement – Truck/Car

On April 22, 2014, the City entered into a lease purchase obligation to acquire a Ford truck and car for the police and park departments. The lease requires annual payments of \$4,909, which includes interest at 2.10%. The City will make the final payment in 2017.

Year Ended December 31,	Principal	Interest	Total
2017	\$ 4,888	\$ 21	\$ 4,909

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES (continued)

Capital Lease Agreement – Wheel Loader

On March 16, 2012, the City entered into a lease purchase obligation to acquire a wheel loader. The lease requires annual payments of \$3,630, which includes interest at 3.75%.

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,608	\$ 22	\$ 3,630

Capital Lease Agreement – Truck

On August 13, 2015, the City entered into a lease purchase obligation to acquire a Ford truck for the street department. The lease requires monthly payments of \$1,192, which includes interest at 2.650%. The City will make the final payment in 2019.

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 13,495	\$ 812	\$ 14,307
2018	13,856	450	14,306
2019	9,442	94	9,536
	<u>\$ 36,793</u>	<u>\$ 1,356</u>	<u>\$ 38,149</u>

Capital Lease Agreement – Car

On March 26, 2015, the City entered into a lease purchase obligation to acquire a car for the police department. The lease requires annual payments of \$9,638, which includes interest at 2.35%. The City will make the final payment in 2018.

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 9,196	\$ 442	\$ 9,638
2018	9,415	224	9,639
	<u>\$ 18,611</u>	<u>\$ 666</u>	<u>\$ 19,277</u>

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES (continued)

Capital Lease Agreement – ProGator Spreader

On July 16, 2015, the City entered into a lease purchase obligation to acquire a ProGator spreader for the golf department. The lease requires annual payments of \$5,314, which includes interest at 2.75%. The City will make the final payment in 2020.

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 4,761	\$ 553	\$ 5,314
2018	4,894	420	5,314
2019	5,030	284	5,314
2020	5,169	144	5,313
	<u>\$ 19,854</u>	<u>\$ 1,401</u>	<u>\$ 21,255</u>

Capital Lease Agreement – Park Trucks & Fairway Mower

On May 20, 2016, the City entered into a lease purchase obligation to acquire two trucks and a fairway mower for the parks department. The lease requires monthly payments of \$1,372, which includes interest at 2.89%. The City will make the final payment in 2020.

<u>Year Ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 15,112	\$ 1,346	\$ 16,458
2018	15,554	904	16,458
2019	16,010	448	16,458
2020	6,808	50	6,858
	<u>\$ 53,484</u>	<u>\$ 2,748</u>	<u>\$ 56,232</u>

These lease purchase agreements provide for cancellation of the lease on the annual renewal date if the City should fail to appropriate funds. However, the City does not foresee exercising its right to cancel. Therefore, these leases are accounted for as noncancellable capital leases in accordance with Governmental Accounting Standards Board (GASB) Section L20, "Leases."

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE F – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES (continued)

Changes in Long-Term Liabilities – Governmental Activities

The following table is a summary of the changes in the Long-Term Liabilities – Governmental Activities for the year ended December 31, 2016:

	Balance December 31, 2015	Additions	Retirements	Balance December 31, 2016
General Obligation Industrial Bond	\$ 115,000	\$ -	\$ 115,000	\$ -
2012 Certificates of Participation	1,635,000	-	75,000	1,560,000
Wheel Loader Lease Purchase	17,333	-	13,725	3,608
Truck Lease Purchase	49,935	-	13,142	36,793
Police Car Lease Purchase	27,594	-	8,983	18,611
Truck/Car Lease Purchase	19,348	-	14,460	4,888
ProGator Spreader Lease Purchase	24,485	-	4,631	19,854
Truck/Mower Lease Purchase	-	62,100	8,616	53,484
Compensated Absences Payable	33,052	-	2,171	30,881
	<u>\$ 1,921,747</u>	<u>\$ 62,100</u>	<u>\$ 255,728</u>	<u>\$ 1,728,119</u>

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2016, was as follows:

	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016
GOVERNMENTAL ACTIVITIES				
Nondepreciable Capital Assets				
Construction in progress	\$ 1,273,105	\$ -	\$ 1,273,105	\$ -
Land	559,978	-	-	559,978
Total Nondepreciable Capital Assets	1,833,083	<u>\$ -</u>	<u>\$ 1,273,105</u>	559,978

CITY OF WARSAW, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE G – CAPITAL ASSETS (continued)

	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016
Depreciable Capital Assets				
Building and improvements	5,900,985	\$ -	\$ -	5,900,985
Equipment and vehicles	1,271,099	103,078	-	1,374,177
Infrastructure	8,595,935	1,808,124	-	10,404,059
Total Depreciable Capital Assets	15,768,019	<u>\$ 1,911,202</u>	<u>\$ -</u>	17,679,221
Less Accumulated Depreciation	7,165,563	<u>\$ 616,655</u>	<u>\$ -</u>	7,782,218
Total Depreciable Capital Assets, net	<u>8,602,456</u>			<u>9,897,003</u>
Total Governmental Activities Capital Assets, net	<u>\$ 10,435,539</u>			<u>\$ 10,456,981</u>

Depreciation expense for governmental activities was charged to functions as follows:

Administrative	\$ 5,697
Street	170,684
Economic development	7,009
Recreation	1,606
Police	13,863
Golf course	11,644
Drake Harbor Amphitheater	19,929
Bridge	132,997
Pool	64,308
Airport	119,064
Park	69,854
	<u>\$ 616,655</u>

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE G – CAPITAL ASSETS (continued)

BUSINESS-TYPE ACTIVITIES	Balance December 31, 2015	Additions	Deletions	Balance December 31, 2016
Water and Sewer				
Depreciable Capital Assets:				
Buildings and improvements	\$ 5,500	\$ -	\$ -	\$ 5,500
Water lines and wells	2,035,298	-	-	2,035,298
Sewer lines and plant	11,332,169	-	-	11,332,169
Machinery and equipment	785,216	-	54,806	730,410
Total Depreciable Capital Assets	14,158,183	\$ -	\$ 54,806	14,103,377
Less Accumulated Depreciation	4,097,124	\$ 336,524	\$ 2,192	4,431,456
Total Depreciable Capital Assets, net	10,061,059			9,671,921
Total Business-Type Activities Capital Assets, net	\$ 10,061,059			\$ 9,671,921

NOTE H – EMPLOYEE PENSION PLAN

General Information about the Pension Plan

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

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE H – EMPLOYEE PENSION PLAN (continued)

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

	<u>2016 Valuation</u>
Benefit Multiplier	1.50% for life
Final Average Salary	5 Years
Member Contributions	0%

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

Employees Covered by Benefit Terms. At June 30, 2016, the following employees were covered by the benefit terms:

	<u>General</u>	<u>Police</u>	<u>Total</u>
Inactive employees or beneficiaries currently receiving benefits	7	2	9
Inactive employees entitled to but not yet receiving benefits	13	1	14
Active employees	<u>14</u>	<u>6</u>	<u>20</u>
	<u>34</u>	<u>9</u>	<u>43</u>

Contributions. The employer is required to contribute amounts at least equal to the actuarially determined rate, as established by LAGERS. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year. With an additional amount to finance an unfunded accrued liability. Full-time employees of the employer do not contribute to the pension plan. Employer contribution rates are 11.1% (General) and 13.1% (Police) of annual covered payroll.

Net Pension Liability. The employer’s net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of February 29, 2016.

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE H – EMPLOYEE PENSION PLAN (continued)

Actuarial Assumptions. The total pension liability in the February 29, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.25% wage inflation; 2.50% price inflation
Salary Increase	3.25% to 6.55% including wage inflation
Investment rate of return	7.25%, net of investment and administrative expenses

The healthy retiree mortality tables, for post-retirement mortality, were the RP-2014 Healthy Annuitant mortality table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were the RP-2014 disabled mortality table for males and females. The pre-retirement mortality tables used were the RP-2014 employees mortality table for males and females.

Both the post-retirement and pre-retirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

The actuarial assumptions used in the February 29, 2016, valuation were based on the results of an actuarial experience study for the period March 1, 2010, through February 28, 2015.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	43.00%	5.29%
Fixed Income	26.00%	2.23%
Real Assets	21.00%	3.31%
Strategic Assets	10.00%	5.73%

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

CITY OF WARSAW, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE H – EMPLOYEE PENSION PLAN (continued)

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
<i>General Division</i>			
Balances at beginning of year	\$ 1,437,150	\$ 1,370,282	\$ 66,868
Changes for the year:			
Service Cost	55,876	-	55,876
Interest	105,149	-	105,149
Difference between expected and actual experiences	(55,225)	-	(55,225)
Contributions - employer	-	64,308	(64,308)
Net investment income	-	(3,188)	3,188
Change of assumptions	66,011	-	66,011
Benefits paid, including refunds	(29,047)	(29,047)	-
Administrative expenses	-	(2,945)	2,945
Other changes	-	(15,393)	15,393
Net Changes	142,764	13,735	129,029
Balances at end of year	1,579,914	1,384,017	195,897
<i>Police Division</i>			
Balances at beginning of year	577,721	509,295	68,426
Changes for the year:			
Service Cost	18,899	-	18,899
Interest	42,223	-	42,223
Difference between expected and actual experiences	(38,090)	-	(38,090)
Contributions - employer	-	30,573	(30,573)
Net investment income	-	(567)	567
Changes of assumptions	26,553	-	26,553
Benefits paid, including refunds	(9,393)	(9,393)	-
Administrative expenses	-	(757)	757
Other changes	-	4,149	(4,149)
Net Changes	40,192	24,005	16,187
Balances at end of year	617,913	533,300	84,613
Total Plan Balances at End of Year	\$ 2,197,827	\$ 1,917,317	\$ 280,510
Governmental Activities			\$ 272,674
Business-Type Activities			7,836
			\$ 280,510

CITY OF WARSAW, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE H – EMPLOYEE PENSION PLAN (continued)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following present the Net Pension Liability of the employer, calculated using the discount rate of 7.25%, as well as what the employer’s Net Pension Liability would be using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate.

	1% Decrease 6.25%	Current Single Discount Rate Assumption 7.25%	1% Increase 8.25%
<i>General Division</i>			
Total Pension Liability	\$ 1,828,489	\$ 1,579,914	\$ 1,376,560
Fiduciary Net Position	1,384,017	1,384,017	1,384,017
Net Pension Liability/(Asset)	444,472	195,897	(7,457)
<i>Police Division</i>			
Total Pension Liability	716,319	617,913	537,062
Fiduciary Net Position	533,300	533,300	533,300
Net Pension Liability/(Asset)	183,019	84,613	3,762
Total Net Pension Liability/(Asset)	\$ 627,491	\$ 280,510	\$ (3,695)

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

For the year ended 2016, the employer recognized pension expense of \$118,349 in the general division and \$28,176 in the police division. The employer reported deferred outflows and inflows of resources related to pensions from the following sources.

	Deferred Outflows of Resources	Deferred Inflows of Resources	Net Deferred Outflows of Resources
<i>General Division</i>			
Differences in experiences	\$ 9,033	\$ (45,063)	\$ (36,030)
Differences in assumptions	53,864	-	53,864
Excess investment returns	122,867	-	122,867
Contributions subsequent to the measurement date*	26,551	-	26,551
	212,315	(45,063)	167,252

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE H – EMPLOYEE PENSION PLAN (continued)

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Net Deferred Outflows of Resources</u>
<i>Police Division</i>			
Differences in experiences	-	(46,903)	(46,903)
Differences in assumptions	22,036	-	22,036
Excess investment returns	46,297	-	46,297
Contributions subsequent to the measurement date*	14,359	-	14,359
	<u>82,692</u>	<u>(46,903)</u>	<u>35,789</u>
	<u>\$ 295,007</u>	<u>\$ (91,966)</u>	<u>\$ 203,041</u>
Governmental Activities	\$ 286,514	\$ (90,163)	\$ 196,351
Business-Type Activities	<u>8,493</u>	<u>(1,803)</u>	<u>6,690</u>
	<u>\$ 295,007</u>	<u>\$ (91,966)</u>	<u>\$ 203,041</u>

*The amount reported as deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as an addition to the Net Pension Liability for the year ending December 31, 2017.

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending December 31,</u>	<u>General Net Deferred Outflows of Resources</u>	<u>Police Net Deferred Outflows of Resources</u>	<u>Total Net Deferred Outflows of Resources</u>
2017	\$ 65,485	\$ 22,604	\$ 88,089
2018	38,934	8,245	47,179
2019	38,933	8,246	47,179
2020	23,039	3,045	26,084
2021	861	(4,394)	(3,533)
Thereafter	-	(1,957)	(1,957)
	<u>\$ 167,252</u>	<u>\$ 35,789</u>	<u>\$ 203,041</u>

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE H – EMPLOYEE PENSION PLAN (continued)

Payable to the Pension Plan

At December 31, 2016, the City reported \$6,990 as payable to the pension plan.

NOTE I – ASSESSED VALUATION, TAX LEVY, AND LEGAL DEBT MARGIN

The assessed valuation of the tangible property and the tax levies per \$100 assessed valuation of that property were as follows:

	<u>2016</u>
Assessed Valuation	
Real estate	\$ 21,036,221
Personal property	<u>4,402,382</u>
TOTAL	<u><u>\$ 25,438,603</u></u>
	<u>2016</u>
Tax Rates Per \$100 of Assessed Valuation	
General revenue	<u><u>\$.4615</u></u>

The legal debt margin at December 31, 2016, was computed as follows:

	<u>General Obligation Bonds</u>		
	<u>Ordinary (1)</u>	<u>Additional (2)</u>	<u>Total</u>
Constitutional Debt Limit	\$ 2,543,860	\$ 2,543,860	\$ 5,087,720
General Obligation Bonds Payable	-	-	-
Amounts Available in Debt Service Fund	<u>109,638</u>	-	<u>109,638</u>
LEGAL DEBT MARGIN	<u><u>\$ 2,653,498</u></u>	<u><u>\$ 2,543,860</u></u>	<u><u>\$ 5,197,358</u></u>

NOTE I – ASSESSED VALUATION, TAX LEVY, AND LEGAL DEBT MARGIN (continued)

(1) Under Article VI, Section 26(b) and (c), Missouri Constitution, the City, by a vote of its qualified electors voting therein, may incur an indebtedness for any purposes authorized in the charter of the City or by any general law of the State of Missouri. The borrowings authorized by this section shall not exceed ten percent of the value of the taxable tangible property in the City.

(2) Under Article VI, Section 26(d) and (e), Missouri Constitution, the City, by a vote of its qualified electors voting therein, may become indebted not exceeding in the aggregate an additional ten percent for the purpose of acquiring rights of way, constructing, extending, and improving streets and avenues, and/or sanitary or storm sewer systems; and purchasing or constructing waterworks, electric or other light plants, provided that the total general obligation indebtedness of the City does not exceed twenty percent of the value of the taxable tangible property in the City.

NOTE J – CLAIMS AND ADJUSTMENTS

The City participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants are subject to audit by the appropriate grantor government. If expenditures are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2016, expenditures have not been audited by grantor governments, but the City believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual government funds or the overall financial position of the City.

NOTE K – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City has transferred its risk by obtaining coverage from commercial insurance companies. In addition, it has effectively managed risk through various employee education and prevention programs. There has been no significant reduction in insurance coverage from the previous year.

CITY OF WARSAW, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2016

NOTE L – INTERFUND TRANSFERS

Transfers between funds of the City for the year ended December 31, 2016, were as follows:

	General Fund	Transportation Fund	Parks Fund	Capital Improvement Fund	Water and Sewer Fund	Total
Transfers in	\$ -	\$ -	\$ 90,000	\$ 17,475	\$ 8,833	\$ 116,308
Transfers (out)	<u>(92,017)</u>	<u>(5,483)</u>	<u>(18,058)</u>	<u>(750)</u>	<u>-</u>	<u>(116,308)</u>
	<u>\$ (92,017)</u>	<u>\$ (5,483)</u>	<u>\$ 71,942</u>	<u>\$ 16,725</u>	<u>\$ 8,833</u>	<u>\$ -</u>

Transfers are used to (1) move receipts from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, and (2) use unrestricted receipts in the Water and Sewer Fund and General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE M – ARBITRAGE PAYABLE

Under certain provisions in the Federal Tax Code and the 1994 State of Missouri Revolving Fund Combined Waterworks and Sewerage System Revenue Bond ordinance, the City is required to rebate arbitrage earnings of tax-exempt debt to the federal government every five years as long as the bonds remain outstanding. Arbitrage earnings occur when the City invests proceeds from its low-interest, tax-exempt debt issue into securities with a higher interest yield. The City had arbitrage earnings during 2016 that reduced interest income and resulted in a long-term liability of \$9,312 in the Water and Sewer Fund.

NOTE N – COMMITMENTS

At December 31, 2016, the City was committed to the following contracts:

The City entered into a contract in 2013 with People Services in order to obtain personnel to operate and maintain the City’s waterworks and sewerage system. The contract called for monthly payments to People Services in the amount of \$26,595 for January 1, 2016, to December 31, 2016, and rates will be adjusted beyond this date. The contract term runs from November 2013 to December 31, 2018.

CITY OF WARSAW, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2016

NOTE N – COMMITMENTS (continued)

The City entered into a contract with GreatLIFE Warsaw, LLC to promote and provide for the management of Shawnee Bend Golf Course. The contract calls for monthly payments of \$2,500 for the first twelve months of the agreement plus 10% of revenues over the revenue goal of \$165,000. The contract term runs from March 2016 to February 2021.

NOTE O – PLEDGED REVENUES

The City has pledged future water and sewer customer revenues to repay the 2009 Combined Water and Sewer Bond, and 2012 Combined Waterworks and Sewerage Bonds issued to improve and expand the water and sewer system. The bonds are payable solely from water and sewer customer net revenues and are payable through 2030. Net revenues are revenues of the system less expenses of the system with the exception of depreciation. The total principal, interest and fees remaining to be paid on the bonds is \$2,355,554. Principal, interest and fees paid for the current year and total customer net revenues were \$171,445 and \$460,142, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WARSAW, MISSOURI
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Year Ended December 31, 2016

Missouri Local Government Employees Retirement System (LAGERS)

	<u>2016</u>	<u>2015</u>
TOTAL PENSION LIABILITY		
Service Cost	\$ 74,775	\$ 61,979
Interest on the Total Pension Liability	147,372	119,588
Changes of benefit terms	-	239,588
Difference between expected and actual experience	(93,315)	(5,855)
Change of assumptions	92,564	-
Benefit Payments	<u>(38,440)</u>	<u>(38,281)</u>
NET CHANGE IN TOTAL PENSION LIABILITY	182,956	377,019
TOTAL PENSION LIABILITY, BEGINNING	<u>2,014,871</u>	<u>1,637,852</u>
TOTAL PENSION LIABILITY, ENDING	2,197,827	2,014,871
PLAN FIDUCIARY NET POSITION		
Contributions - employer	94,881	91,605
Pension Plan Net Investment Income	(3,755)	36,453
Benefit Payments	(38,440)	(38,281)
Pension Plan Administrative Expense	(3,702)	(4,195)
Other	<u>(11,244)</u>	<u>56,685</u>
NET CHANGE IN PLAN FIDUCIARY NET POSITION	37,740	142,267
PLAN FIDUCIARY NET POSITION, BEGINNING	<u>1,879,577</u>	<u>1,737,310</u>
PLAN FIDUCIARY NET POSITION, ENDING	<u>1,917,317</u>	<u>1,879,577</u>
EMPLOYER NET PENSION LIABILITY	<u>\$ 280,510</u>	<u>\$ 135,294</u>
Plan fiduciary net position as a percentage of the total pension liability	87.24%	93.29%
Covered employee payroll	\$ 700,824	\$ 857,321
Employer's net pension liability as a percentage of covered employee payroll	40.03%	15.78%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

CITY OF WARSAW, MISSOURI
 SCHEDULE OF CONTRIBUTIONS
 Year Ended December 31, 2016

Missouri Local Government Employees Retirement System (LAGERS)
Schedule of Contributions
Last 10 Fiscal Years

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially determined contribution	\$ 84,707	\$ 100,390	\$ 82,729	\$ 99,825	\$ 107,909	\$ 95,467	\$ 95,905	\$ 85,230	\$ 90,459	\$ 95,779
Contributions in relation to the actuarially determined contribution	84,707	100,390	82,729	99,825	107,909	95,467	93,376	85,230	90,459	95,779
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,529	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 723,244	\$ 833,550	\$ 817,205	\$ 910,178	\$ 926,082	\$ 880,632	\$ 889,727	\$ 858,960	\$ 869,699	\$ 882,472
Contributions as a percentage of covered-employee payroll	11.71%	12.04%	10.12%	10.97%	11.65%	10.84%	10.49%	9.92%	10.40%	10.85%

CITY OF WARSAW, MISSOURI
NOTES TO SCHEDULE OF CONTRIBUTIONS
Year Ended December 31, 2016

Valuation Date: February 29, 2016

Notes: The roll-forward of total pension liability from February 29, 2016, to June 30, 2016, reflects expected service cost and interest reduced by actual benefit payments and administrative expenses.

Methods and Assumptions Used to Determine Contribution Rates

Actuarial Cost Method – Entry Age Normal and Modified Terminal Funding

Amortization Method – Level Percentage of Payroll, Closed

Remaining Amortization Period – Multiple bases from 13 to 19 years

Asset Valuation Method – 5-Year smoothed market; 20% corridor

Inflation – 3.25% wage inflation; 2.50% price inflation

Salary Increases – 3.25% to 6.55% including wage inflation

Investment Rate of Return – 7.25%, net of investment expenses

Retirement Age – Experience-based table of rates that are specific to the type of eligibility condition

Mortality – The healthy retiree mortality tables, for post-retirement mortality, were the RP-2014 Healthy Annuitant mortality table for males and females. The disabled retiree mortality tables, for post-retirement mortality, were the RP-2014 disabled mortality table for males and females. The pre-retirement mortality tables used were the RP-2014 employees mortality table for males and females.

Both the post-retirement and pre-retirement tables were adjusted for mortality improvement back to the observation period base year of 2006. The base year for males was then established to be 2017. Mortality rates for a particular calendar year are determined by applying the MP-2015 mortality improvement scale to the above described tables.

Other Information – New assumptions adopted based on the 5-year experience study for the period March 1, 2010, through February 28, 2015.

CITY OF WARSAW, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
Ad valorem taxes	\$ 116,500	\$ 112,101	\$ 112,101	\$ -
Intangible tax	250	248	248	-
City sales tax	893,166	979,565	979,565	-
Franchise fees	182,017	175,458	175,458	-
Surtax	10,000	14,305	14,305	-
	<u>1,201,933</u>	<u>1,281,677</u>	<u>1,281,677</u>	<u>-</u>
Licenses and Permits				
Occupational licenses	54,000	41,432	41,432	-
Building permits	5,000	18,097	18,097	-
Other	585	4,807	4,807	-
	<u>59,585</u>	<u>64,336</u>	<u>64,336</u>	<u>-</u>
Intergovernmental Revenues				
MoDOT grant	-	7,500	7,500	-
Charges for Services				
Golf course	189,100	161,748	161,748	-
Trash	103,480	106,953	106,953	-
Recreation	32,650	35,825	35,825	-
	<u>325,230</u>	<u>304,526</u>	<u>304,526</u>	<u>-</u>
Fines and Forfeitures				
City court fines	23,650	23,237	23,237	-
CVC fees	70	125	125	-
	<u>23,720</u>	<u>23,362</u>	<u>23,362</u>	<u>-</u>
Miscellaneous				
Interest	8,000	9,345	9,345	-
Rental income	43,600	45,091	45,091	-
Other	1,000	30,704	30,704	-
	<u>52,600</u>	<u>85,140</u>	<u>85,140</u>	<u>-</u>
TOTAL REVENUES	<u>1,663,068</u>	<u>1,766,541</u>	<u>1,766,541</u>	<u>-</u>

CITY OF WARSAW, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND (continued)
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
EXPENDITURES				
Current				
Administrative	485,343	493,172	493,172	-
Police	462,892	436,285	436,285	-
Recreation	90,149	86,370	86,370	-
Community building	63,150	46,375	46,375	-
Solid waste	100,064	100,225	100,225	-
Golf course	281,686	312,140	312,140	-
Community development	44	44	44	-
Debt service	-	18,070	18,070	-
TOTAL EXPENDITURES	<u>1,483,328</u>	<u>1,492,681</u>	<u>1,492,681</u>	-
EXCESS OF REVENUES OVER EXPENDITURES	179,740	273,860	273,860	-
OTHER FINANCING SOURCES (USES)				
Lease proceeds	-	19,500	19,500	-
Transfers (out)	(68,265)	(92,017)	(92,017)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(68,265)</u>	<u>(72,517)</u>	<u>(72,517)</u>	-
EXCESS OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	111,475	201,343	201,343	-
FUND BALANCE, January 1	<u>1,020,812</u>	<u>1,020,812</u>	<u>1,020,812</u>	-
FUND BALANCE, December 31	<u>\$ 1,132,287</u>	<u>\$ 1,222,155</u>	<u>\$ 1,222,155</u>	<u>\$ -</u>

CITY OF WARSAW, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – TRANSPORTATION FUND
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
Transportation sales tax	\$ 290,000	\$ 319,833	\$ 319,833	\$ -
Fuel tax	55,000	56,644	56,644	-
Motor vehicle sales tax	23,000	27,486	27,486	-
	<u>368,000</u>	<u>403,963</u>	<u>403,963</u>	<u>-</u>
Intergovernmental Revenues				
MoDOT FLAP grant	-	331,844	331,844	-
MoDOT TEAP grant	-	7,860	7,860	-
	<u>-</u>	<u>339,704</u>	<u>339,704</u>	<u>-</u>
Charges for Services				
Airport rental fees	26,419	34,839	34,839	-
Airport fuel sales	35,000	32,418	32,418	-
	<u>61,419</u>	<u>67,257</u>	<u>67,257</u>	<u>-</u>
Miscellaneous				
Other	2,600	3,888	3,888	-
	<u>432,019</u>	<u>814,812</u>	<u>814,812</u>	<u>-</u>
TOTAL REVENUES				
EXPENDITURES				
Current				
Airport	82,622	86,826	86,826	-
Streets	393,693	378,130	378,130	-
Capital improvements	291,387	296,387	296,387	-
	<u>767,702</u>	<u>761,343</u>	<u>761,343</u>	<u>-</u>
TOTAL EXPENDITURES				
EXCESS OF REVENUES OVER EXPENDITURES				
	(335,683)	53,469	53,469	-
OTHER FINANCING (USES)				
Transfer (out)	-	(5,483)	(5,483)	-
	<u>-</u>	<u>(5,483)</u>	<u>(5,483)</u>	<u>-</u>
TOTAL OTHER FINANCING (USES)				
	<u>-</u>	<u>(5,483)</u>	<u>(5,483)</u>	<u>-</u>
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES AND OTHER (USES)				
	(335,683)	47,986	47,986	-
FUND BALANCE, January 1				
	591,877	591,877	591,877	-
FUND BALANCE, December 31				
	<u>\$ 256,194</u>	<u>\$ 639,863</u>	<u>\$ 639,863</u>	<u>\$ -</u>

CITY OF WARSAW, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – CAPITAL IMPROVEMENT FUND
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
Capital improvements sales tax	\$ 395,001	\$ 438,526	\$ 438,526	\$ -
Intergovernmental Revenues				
Grant revenue	-	86,677	86,677	-
TOTAL REVENUES	395,001	525,203	525,203	-
EXPENDITURES				
Capital improvements	466,909	487,121	487,121	-
TOTAL EXPENDITURES	466,909	487,121	487,121	-
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(71,908)	38,082	38,082	-
OTHER FINANCING SOURCES (USES)				
Transfers in	-	17,475	17,475	-
Transfers (out)	(160,665)	(750)	(750)	-
TOTAL OTHER FINANCING SOURCES (USES)	(160,665)	16,725	16,725	-
EXCESS (DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	(232,573)	54,807	54,807	-
FUND BALANCE, January 1	524,956	524,956	524,956	-
FUND BALANCE, December 31	\$ 292,383	\$ 579,763	\$ 579,763	\$ -

CITY OF WARSAW, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – PARKS FUND
 Year Ended December 31, 2016

	Original Budget	Final Budget	Actual	Variance With Final Budget
REVENUES				
Taxes				
Transportation sales tax	\$ 381,720	\$ 426,621	\$ 426,621	\$ -
Charges for Services				
Pool fees	47,601	50,343	50,343	-
Park fees	1,500	1,735	1,735	-
	<u>49,101</u>	<u>52,078</u>	<u>52,078</u>	-
Miscellaneous				
Other	5,000	5,725	5,725	-
TOTAL REVENUES	<u>435,821</u>	<u>484,424</u>	<u>484,424</u>	-
EXPENDITURES				
Current				
Pool	110,737	98,015	98,015	-
Park	321,525	364,898	364,898	-
Debt service	159,706	154,048	154,048	-
TOTAL EXPENDITURES	<u>591,968</u>	<u>616,961</u>	<u>616,961</u>	-
(DEFICIT) OF REVENUES OVER EXPENDITURES	(156,147)	(132,537)	(132,537)	-
OTHER FINANCING SOURCES (USES)				
Lease proceeds	-	42,600	42,600	-
Transfers in	68,265	90,000	90,000	-
Transfers (out)	-	(18,058)	(18,058)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>68,265</u>	<u>24,542</u>	<u>114,542</u>	-
(DEFICIT) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER (USES)	(87,882)	(107,995)	(17,995)	-
FUND BALANCE, January 1	<u>88,738</u>	<u>88,738</u>	<u>88,738</u>	-
FUND BALANCE, December 31	<u><u>\$ 856</u></u>	<u><u>70,743</u></u>	<u><u>\$ 70,743</u></u>	<u><u>\$ -</u></u>

CITY OF WARSAW, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended December 31, 2016

Budgets and Budgetary Accounting

The City utilizes the following procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to January, Administration submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditure plans for all fund types and the proposed means of financing them.
2. One public hearing is conducted by the Board of Aldermen in late August or early September to obtain taxpayers' comments on the proposed budget and tax levy.
3. Prior to January 1, ordinances are passed by the Board which provide for legally adopted budgets for all funds of the City.
4. Formal budgetary integration is employed as a management control device for all funds of the City.
5. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with GAAP. Budgeted amounts may be amended during the year by the Board of Aldermen on approved budget adjustment forms.

OTHER REPORTING REQUIREMENTS



**INDEPENDENT AUDITORS' 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**

Honorable Mayor and Board of Aldermen
City of Warsaw
Warsaw, Missouri

We have audited, 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, the financial statements of the governmental activities, business-type activities, and each major fund of the City of Warsaw, Missouri, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the City of Warsaw, Missouri's basic financial statements, and have issued our report thereon, dated May 19, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Warsaw, 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 the City of Warsaw, Missouri's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 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.

Honorable Mayor and Board of Aldermen
City of Warsaw
Warsaw, Missouri

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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and responses, that we consider to be a material weakness. It is identified as item 2016-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Warsaw, Missouri's 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*.

City of Warsaw, Missouri's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 City of Warsaw, Missouri'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 City of Warsaw, Missouri's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
May 19, 2017

CITY OF WARSAW, MISSOURI
SCHEDULE OF FINDINGS AND RESPONSES
Year Ended December 31, 2016

2016-001 Segregation of Duties

Condition: Because of a limited number of available personnel, it is not always possible to adequately segregate certain incompatible duties so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

Criteria: Duties should be segregated so that no one employee has access to both physical assets and the related accounting records, or to all phases of a transaction.

Effect: Risk is present that errors or irregularities in amounts that would be material to the basic financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation: We realize that because of limited resources and personnel, management may not be able to achieve a proper segregation of duties; however, our professional standards require that we bring this lack of segregation of duties to your attention in this report.

Response: Due to limitations of available resources, it is not practical for the City to utilize resources to employ additional personnel to segregate duties further. The City will monitor the situation and employ mitigating controls where possible to reduce the risk to the City.