



Honorable Mayor and Board of Aldermen
City of Knob Noster
Knob Noster, Missouri

We have audited the financial statements of the governmental activities, the business-type activities, and each major fund of the City of Knob Noster, Missouri, for the year ended December 31, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 9, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City of Knob Noster, Missouri, are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended December 31, 2014. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

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Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. The following material misstatements detected as a result of audit procedures were corrected by management:

- Cash and Cash Equivalents Allocation
- Debt Service Disbursements

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated June 3, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Honorable Mayor and Board of Aldermen
City of Knob Noster
Knob Noster, Missouri
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Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Honorable Mayor and Board of Aldermen and management of the City of Knob Noster, Missouri, and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
June 3, 2015



Honorable Mayor and Board of Aldermen
City of Knob Noster
Knob Noster, Missouri

In planning and performing our audit of the financial statements of the City of Knob Noster, Missouri as of and for the year ended December 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We believe that the following deficiency constitutes a material weakness.

Segregation of Duties

The City does not have an adequate segregation of duties within the various accounting functions. The basic premise behind the segregation of duties is that no one employee should have access to all phases of a transaction, to help prevent errors and irregularities. This weakness is found in the majority of smaller entities.

We Recommend:

The City take any steps economically feasible to segregate incompatible duties to help protect the City's assets. However, due to the nature of this weakness, further steps may not be practical.

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In addition to the material weakness discussed in the preceding paragraphs, we became aware of an additional matter to bring to your attention. The following paragraphs summarize our comments and suggestions regarding this matter.

City Operations

While during the two most current years, the City was able to increase the cash balance in the General Fund, in prior years, the City experienced deficit spending and decreasing cash balances in the General Fund. Adequate cash reserves are necessary for the City to meet its obligations without developing cash flow difficulties. At December 31, 2014, the General Fund had an unassigned fund balance of \$121,797, which represents less than a two months operating reserve.

We Recommend:

The City review all budget items for the 2015 fiscal year to ensure no deficits are budgeted. The City should monitor on an ongoing basis all receipts and disbursements to allow for adequate operating funds. The City should also begin building cash reserves to reach a level that the Board and management consider necessary to avoid future cash flow difficulties.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with the City's administrative personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

We appreciate the opportunity to serve as the City of Knob Noster's independent auditors and the courtesies and assistance extended to us by the City's employees.

Respectfully submitted,

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
June 3, 2015

CITY OF KNOB NOSTER, MISSOURI

BASIC FINANCIAL STATEMENTS

Year Ended December 31, 2014

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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Knob Noster
Knob Noster, Missouri

We have audited the accompanying modified cash basis financial statements of the governmental activities, business-type activities, and each major fund of the City of Knob Noster, Missouri, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting as described in Note A; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

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Honorable Mayor and Board of Aldermen
City of Knob Noster
Knob Noster, Missouri

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 basic financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the governmental activities, business-type activities, and each major fund, of the City of Knob Noster, Missouri as of December 31, 2014, and the respective changes in the modified cash basis financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note A.

Basis of Accounting

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

Disclaimer of Opinion on Supplementary Information

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

KPM CPAs, PC

KPM CPAs, PC
Springfield, Missouri
June 3, 2015

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF NET POSITION – MODIFIED CASH BASIS
 December 31, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments - unrestricted	\$ 231,287	\$ 428,151	\$ 659,438
Cash and investments - restricted	1,448	271,068	272,516
TOTAL ASSETS	<u>\$ 232,735</u>	<u>\$ 699,219</u>	<u>\$ 931,954</u>
NET POSITION			
Restricted	\$ 1,448	\$ 271,068	\$ 272,516
Unrestricted	231,287	428,151	659,438
TOTAL NET POSITION	<u>\$ 232,735</u>	<u>\$ 699,219</u>	<u>\$ 931,954</u>

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
Year Ended December 31, 2014

Functions/Programs	Program Receipts			Net (Disbursements), Receipts 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	\$ 13,919	\$ -	\$ -	\$ (201,550)	\$ -	\$ (201,550)
Public safety	47,561	-	-	(608,252)	-	(608,252)
Public works	-	-	-	(198,882)	-	(198,882)
Fire	(24,913)	-	-	(24,913)	-	(24,913)
TOTAL GOVERNMENTAL ACTIVITIES	(1,095,077)	-	-	(1,033,597)	-	(1,033,597)
Business-Type Activities						
Water and sewer	732,440	-	-	-	(30,825)	(30,825)
TOTAL BUSINESS-TYPE ACTIVITIES	732,440	-	-	-	(30,825)	(30,825)
TOTAL GOVERNMENT	\$ 793,920	\$ -	\$ -	(1,033,597)	(30,825)	(1,064,422)
General Receipts:						
Property taxes				177,929	-	177,929
Sales taxes				575,340	-	575,340
Franchise taxes				223,296	-	223,296
Motor vehicle taxes				102,152	-	102,152
Cigarette tax				2,511	-	2,511
Interest				1,451	12,925	14,376
Miscellaneous				7,209	-	7,209
			Total General Receipts	1,089,888	12,925	1,102,813
			Changes in Net Position	56,291	(17,900)	38,391
Net Position, Beginning of year				176,444	717,119	893,563
Net Position, End of year				\$ 232,735	\$ 699,219	\$ 931,954

See accompanying notes.

FUND FINANCIAL STATEMENTS

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF ASSETS AND FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH
 BASIS
 December 31, 2014

	General Fund	Special Revenue Fund Fire Fund	Total Governmental Funds
ASSETS			
Cash and investments - unrestricted	\$ 123,769	\$ 107,518	\$ 231,287
Cash and investments - restricted	1,448	-	1,448
TOTAL ASSETS	<u>\$ 125,217</u>	<u>\$ 107,518</u>	<u>\$ 232,735</u>
FUND BALANCE			
Restricted for:			
Court bonds	\$ 1,448	\$ -	\$ 1,448
Assigned to:			
City Hall building	1,972	-	1,972
Fire department	-	107,518	107,518
Unassigned	121,797	-	121,797
TOTAL FUND BALANCE	<u>\$ 125,217</u>	<u>\$ 107,518</u>	<u>\$ 232,735</u>

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN FUND BALANCE –
 GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
 Year Ended December 31, 2014

	General Fund	Special Revenue Fund Fire Fund	Total Governmental Funds
RECEIPTS			
Taxes	\$ 1,031,699	\$ 49,529	\$ 1,081,228
Licenses and permits	13,919	-	13,919
Fines and forfeitures	47,561	-	47,561
Interest	1,451	-	1,451
Miscellaneous	7,209	-	7,209
TOTAL RECEIPTS	1,101,839	49,529	1,151,368
DISBURSEMENTS			
Current			
Administrative	215,469	-	215,469
Public safety	655,813	-	655,813
Public works	198,882	-	198,882
Fire	-	24,913	24,913
TOTAL DISBURSEMENTS	1,070,164	24,913	1,095,077
EXCESS OF RECEIPTS OVER DISBURSEMENTS	31,675	24,616	56,291
FUND BALANCE, January 1	93,542	82,902	176,444
FUND BALANCE, December 31	<u>\$ 125,217</u>	<u>\$ 107,518</u>	<u>\$ 232,735</u>

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF NET POSITION – PROPRIETARY FUND – MODIFIED CASH BASIS
 December 31, 2014

	<u>Water and Sewer Fund</u>
ASSETS	
Cash and cash equivalents - unrestricted	\$ 428,151
Cash and cash equivalents - restricted	<u>271,068</u>
TOTAL ASSETS	<u><u>\$ 699,219</u></u>
NET POSITION	
Restricted	\$ 271,068
Unrestricted	<u>428,151</u>
TOTAL NET POSTION	<u><u>\$ 699,219</u></u>

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET POSITION – PROPRIETARY
FUND – MODIFIED CASH BASIS
Year Ended December 31, 2014

	<u>Water and Sewer Fund</u>
OPERATING RECEIPTS	
Charges for services	\$ 732,440
TOTAL OPERATING RECEIPTS	<u>732,440</u>
OPERATING DISBURSEMENTS	
Salaries	122,666
Payroll taxes	7,860
Employee benefits	51,738
Phone and utilities	164,002
Operating supplies	20,342
Advertising	1,447
Insurance	4,927
Repairs and maintenance	48,640
Travel, meetings and dues	6,347
Vehicle expense	21,057
Administrative	90,000
Other expense	26,939
Laboratory fees	6,278
TOTAL OPERATING DISBURSEMENTS	<u>572,243</u>
OPERATING INCOME	160,197
NONOPERATING RECEIPTS (DISBURSEMENTS)	
Debt service	
Principal payment	(118,190)
Interest payment	(33,015)
Capital outlay	(39,817)
Interest receipts	12,925
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(178,097)</u>
NET (LOSS)	(17,900)
NET POSITION, January 1	<u>717,119</u>
NET POSITION, December 31	<u>\$ 699,219</u>

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS
Year Ended December 31, 2014

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 732,440
Cash paid to suppliers	(389,979)
Cash paid to employees	<u>(182,264)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	160,197
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on debt	(118,190)
Interest paid on debt	(33,015)
Capital outlay	<u>(39,817)</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(191,022)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>12,925</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>12,925</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(17,900)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>717,119</u>
CASH AND CASH EQUIVALENTS, End of year	699,219
LESS RESTRICTED CASH AND CASH EQUIVALENTS	<u>271,068</u>
UNRESTRICTED CASH AND CASH EQUIVALENTS	<u><u>\$ 428,151</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 160,197
Adjustments to reconcile operating income to net cash provided by operating activities	<u>-</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 160,197</u></u>

See accompanying notes.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Knob Noster, Missouri, (the City) operates under a Mayor – Board of Aldermen form of government and provides the following services: public safety, fire protection, parks, public works, and general administrative services. Other services include water and sewer operations.

The accounting policies of the City conform to the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant policies.

Financial Reporting Entity

The City is organized under the laws of the State of Missouri and is a primary government governed by an elected five-member board. The City is not financially accountable for any other organization, nor is it a component unit of any other primary governmental entity.

Basis of Presentation

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 Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity. Governmental activities, which are financed through taxes and intergovernmental receipts, are reported separately from business-type activities, which rely on fees and charges for services for support.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

FUND FINANCIAL STATEMENTS

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, fund balance, receipts, and disbursements. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. All funds of the City are considered major funds. The funds of the City are as follows:

GOVERNMENTAL FUND TYPES

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources not accounted for in other funds.

Fire Fund: The Fire Fund is used to account for the proceeds of specific revenue sources that are restricted, committed, or assigned to expenditures for the fire department.

PROPRIETARY FUND TYPE

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

Basis of Accounting

The government-wide Statement of Net Position and Statement of Activities and the fund financial statements are presented using the modified cash basis of accounting. This basis recognizes assets, net position/fund equity, receipts, and disbursements when they result from cash transactions. The modification to the cash basis relates to the presentation of investments. This basis is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as accounts receivable and revenue for billed or provided services not yet collected) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid, and accrued expenses and liabilities) *are not recorded* in these financial statements.

If the City utilized the basis of accounting recognized as generally accepted, the fund financial statements for the governmental fund would use the modified accrual basis of accounting and the proprietary fund would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all accounts subject to withdrawal by check or on demand to be cash equivalents.

Vacation and Sick Leave

Utilization of accumulated vacation and sick leave by employees in future years is not expected to have a material impact on City disbursements in any one year.

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 net position at the date of the financial statements. Actual results could differ from those estimates.

Capital Outlay

Capital assets and property and equipment purchases are recorded as disbursements at the time the goods are paid for and received.

Compensated Absences

Employees earn vacation time based on the number of year's service to the City. Outstanding vacation leave is payable upon termination of employment. Compensated absences are presented in the Statement of Net Position.

Debt

Debt arising from cash transactions is not reported in the government-wide financial statements or the fund financial statements, which is consistent with the modified cash basis of accounting. Debt proceeds are reported as other financing sources and payment of principle and interest are reported as disbursements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Net Position

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

- A. *Restricted net position* – Consists of the net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- B. *Unrestricted net position* – Consists of the financial position that does not meet the definition of “restricted”.

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

Program Receipts

In the Statement of Activities, receipts that are derived directly from each activity or from parties outside the City’s taxpayers are reported as program receipts. These include 1) charges for goods, services or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. All other governmental receipts are reported as general. All taxes are classified as general receipts, even if restricted for a specific purpose.

NOTE B – CASH AND CASH EQUIVALENTS

State statutes require that the City’s deposits be collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of December 31, 2014, all bank balances on deposit are entirely insured or collateralized with securities.

CITY OF KNOB NOSTER, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE C – INVESTMENTS

Investments of the City as of December 31, 2014, are as follows:

<u>Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Certificates of Deposit	2/15/2015 - 10/9/2015	<u>\$ 305,077</u>

Certificates of Deposit

Certificates of deposit with maturities in excess of three months are classified as investments but are considered deposits for custodial risk determination. State statutes require that the City's deposits be collateralized in the name of the City by the trust department of a bank that does not hold the collateralized deposits. As of December 31, 2014, all certificates of deposit are entirely insured or collateralized with securities.

The City has no policy on interest rate risk.

NOTE D – RESTRICTED ASSETS

Cash and cash equivalents, fund balance, and net position have been restricted as follows:

Governmental Funds

Cash and cash equivalents and fund balances/net position in the General Fund have been restricted in the amount of \$1,448 for court bonds.

Enterprise Funds

The 2003 Waterworks and Sewerage System Bond ordinance requires certain restricted deposits. During the current year, all required deposits were made. Additionally, cash has been restricted in the Water and Sewer Fund for customer utility deposits. These restricted amounts are as follows:

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE D – RESTRICTED ASSETS (continued)

	<u>Restricted Cash and Cash Equivalents</u>	<u>Restricted Net Position</u>
WATER AND SEWER FUND		
2003C Series Combined Waterworks and Sewerage System		
Bond Principal and Interest Funds	\$ 32,221	\$ 32,221
Depreciation and Replacement Funds	165,475	165,475
Customer Utility Deposits	73,372	73,372
	<u>\$ 271,068</u>	<u>\$ 271,068</u>

NOTE E – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES

Long-term liabilities for governmental activities at December 31, 2014, consist of compensated absences and net pension obligation liability.

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

	<u>Balance December 31, 2013</u>	<u>New Obligations</u>	<u>Retirements</u>	<u>Balance December 31, 2014</u>
Police Cars Lease Purchase	\$ 31,083	\$ -	\$ 31,083	\$ -
Compensated Absences	40,071	-	1,263	38,808
Net Pension Obligation Payable	5,255	-	83	5,172
	<u>\$ 76,409</u>	<u>\$ -</u>	<u>\$ 32,429</u>	<u>\$ 43,980</u>

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

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

Long-term liabilities for business-type activities at December 31, 2014, consists of the Series 2003C revenue bonds payable.

On November 20, 2003, the City entered into an agreement with the Missouri Leveraged State Water Pollution Control Revolving Fund Program to sell \$1,000,000 in Combined Waterworks and Sewerage System Revenue Bonds, Series 2003C, for the purpose of improving and extending the waterworks system. The bonds bear interest at 2.00% to 5.00%. Interest payments are due semi-annually on January 1 and July 1 of each year with annual principal payments due on July 1 of each year. The bonds also require an administrative fee payable annually on July 1 of each year at 1% of the outstanding principal amount of the revolving fund loan balance. The bonds maturing on and after July 1, 2016, are callable under the provisions outlined in the bond ordinance.

The bonds outstanding at December 31, 2014, are due as follows:

Year Ended December 31,	Principal	Interest	Administrative Fee	Total
2015	\$ 50,000	\$ 25,800	\$ 2,938	\$ 78,738
2016	55,000	23,300	2,670	80,970
2017	55,000	21,100	2,377	78,477
2018	60,000	18,350	2,082	80,432
2019	60,000	15,830	1,762	77,592
2020	65,000	12,830	1,442	79,272
2021	65,000	9,970	1,095	76,065
2022	70,000	6,720	748	77,468
2023	70,000	3,220	374	73,594
	<u>\$ 550,000</u>	<u>\$ 137,120</u>	<u>\$ 15,488</u>	<u>\$ 702,608</u>

The following is a summary of the changes in long-term liabilities – business-type activities for the year ended December 31, 2014:

	Balance December 31, 2013	New Obligations	Retired	Balance December 31, 2014
2003C Revenue Bonds	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 550,000</u>

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE G – 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. Disbursements financed by grants are subject to audit by the appropriate grantor government. If disbursements are disallowed due to noncompliance with grant program regulations, the City may be required to reimburse the grantor government. As of December 31, 2014, significant amounts of grantor disbursements have not been audited by grantor governments, but the City believes that disallowed disbursements, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the City.

NOTE H – 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>2014</u>
Assessed Valuation	
Real estate	\$ 18,082,634
Personal property	<u>3,458,695</u>
TOTAL	<u>\$ 21,541,329</u>
Tax Rates Per \$100 of Assessed Valuation	
General Fund	\$.6796
Fire Fund	<u>.3000</u>
TOTAL	<u>\$.9796</u>

The legal debt margin at December 31, 2014, was computed as follows:

	<u>General Obligation Bonds</u>		
	<u>Ordinary (1)</u>	<u>Additional (2)</u>	<u>Total</u>
Constitutional Debt Limit	\$ 2,154,133	\$ 2,154,133	\$ 4,308,266
General Obligation Bonds Payable	<u>-</u>	<u>-</u>	<u>-</u>
LEGAL DEBT MARGIN	<u>\$ 2,154,133</u>	<u>\$ 2,154,133</u>	<u>\$ 4,308,266</u>

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

(1) Under Article VI, Section 26(b) and (c), Missouri Constitution, the City, by vote of its qualified electors voting therein, may incur an indebtedness for any purpose 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 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 I – EMPLOYEE PENSION PLAN

Plan Description

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

LAGERS was created and is governed by statute, section RSMo. 70.600 - 70.755. As such, it is the system's responsibility to administer the law in accordance with the expressed intent of the General Assembly. The plan is qualified under the Internal Revenue Code Section 401a and it is tax exempt.

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

NOTE I – EMPLOYEE PENSION PLAN (continued)

Funding Status

Full-time employees of the City of Knob Noster do not contribute to the pension plan. The June 30th statutorily required contribution rates are 14.5% (General), and 10.3% (Police) of annual covered payroll. The contribution requirements of plan members are determined by the governing body of the political subdivision. The contribution provisions of the political subdivision are established by state statute.

Annual Pension Cost (APC) and Net Pension Obligation (NPO)

The subdivision's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 80,509
Interest on net pension obligation	381
Adjustment to annual required contribution	<u>(464)</u>
Annual pension cost	80,426
Actual contributions	<u>80,509</u>
Increase in NPO	(83)
NPO beginning of year	<u>5,255</u>
NPO end of year	<u><u>\$ 5,172</u></u>

The annual required contribution (ARC) was determined as part of the February 29, 2012, and February 28, 2013, annual actuarial valuation using the entry age actuarial cost method. The actuarial assumptions as of February 28, 2014, included: (a) a rate of return on the investment of present and future assets of 7.25% per year, compounded annually, (b) projected salary increases of 3.5% per year, compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0.0% to 6.0% per year, depending on age and division, attributable to seniority/merit, (d) pre-retirement mortality based on 75% of the RP-2000 Combined Healthy table set back 0 years for men and 0 years for women, and (e) post-retirement mortality based on 105% the 1994 Group Annuity Mortality table set back 0 years for men and 0 years for women. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The amortization period as of February 29, 2012, was 21 years for the General division and 16 years for the Police division. The amortization period as of February 28, 2013, was 15 years for the General division and 14 years for the Police division.

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2014

NOTE I – EMPLOYEE PENSION PLAN (continued)

Three-Year Trend Information

Year Ended June 30,	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	\$ 74,677	99.3%	\$ 5,251
2013	78,748	100%	5,255
2014	80,426	100%	5,172

The actuarial valuation revealed the following relating to the financial position of the Plan:

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
02/28/14	\$ 361,629	\$ 683,829	\$ 322,200	53%	\$ 698,128	46%

The schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

NOTE J – 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 KNOB NOSTER, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2014

NOTE K – PLEDGED REVENUES

The City has pledged future water and sewer customer receipts to repay the 2003C Combined Waterworks and Sewerage System Revenue Bonds issued to improve and expand the water and sewer system. The bonds are payable solely from water and sewer customer net receipts and are payable through 2023. Net receipts are receipts of the system less disbursements of the system. The total principal and interest remaining to be paid on the bonds is \$687,120. Principal and interest paid for the current year and total customer net receipts were \$78,300 and \$160,197, respectively.

SUPPLEMENTARY INFORMATION

CITY OF KNOB NOSTER, MISSOURI
 SCHEDULE OF FUNDING PROGRESS
 Year Ended December 31, 2014

Missouri Local Government Employees Retirement System (LAGERS)

Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Entry Age Actuarial Accrued Liability	(b-a) Unfunded Accrued Liability (UAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	[(b-a)/c] UAL as a Percentage of Covered Payroll
02/29/12	\$ 170,591	\$ 569,661	\$ 399,070	30%	\$ 654,959	61%
02/28/13	280,776	639,336	358,560	44%	649,375	55%
02/28/14	361,629	683,829	322,200	53%	698,128	46%

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

CITY OF KNOB NOSTER, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
 Year Ended December 31, 2014

	Original Budget	Final Budget	Actual	Variance With Final Budget
RECEIPTS				
Taxes				
Property taxes	\$ 160,000	\$ 136,462	\$ 128,400	\$ (8,062)
Sales taxes	520,000	611,464	575,340	(36,124)
Franchise taxes	218,000	237,316	223,296	(14,020)
Motor vehicle taxes	82,000	108,566	102,152	(6,414)
Cigarette tax	6,000	2,669	2,511	(158)
	<u>986,000</u>	<u>1,096,477</u>	<u>1,031,699</u>	<u>(64,778)</u>
Licenses and permits				
Merchant licenses	6,225	6,225	7,921	1,696
Building permits	15,000	15,000	5,998	(9,002)
	<u>21,225</u>	<u>21,225</u>	<u>13,919</u>	<u>(7,306)</u>
Fines and forfeitures				
Court fines	40,750	40,750	47,561	6,811
Miscellaneous				
Interest	100	100	1,451	1,351
Other receipts	33,800	33,800	7,209	(26,591)
	<u>33,900</u>	<u>33,900</u>	<u>8,660</u>	<u>(25,240)</u>
TOTAL RECEIPTS	1,081,875	1,192,352	1,101,839	(90,513)
DISBURSEMENTS				
Current				
Administrative	223,969	221,667	215,469	6,198
Public safety	647,732	674,679	655,813	18,866
Public works	168,574	204,603	198,882	5,721
	<u>1,040,275</u>	<u>1,100,949</u>	<u>1,070,164</u>	<u>30,785</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS				
	41,600	91,403	31,675	(59,728)
FUND BALANCE, January 1	93,542	93,542	93,542	-
FUND BALANCE, December 31	<u>\$ 135,142</u>	<u>\$ 184,945</u>	<u>\$ 125,217</u>	<u>\$ (59,728)</u>

CITY OF KNOB NOSTER, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – FIRE FUND – MODIFIED CASH BASIS
 Year Ended December 31, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
RECEIPTS				
Taxes				
Property taxes	\$ 50,000	\$ 50,000	\$ 49,529	\$ (471)
TOTAL RECEIPTS	50,000	50,000	49,529	(471)
DISBURSEMENTS				
Current				
Fire	32,263	32,263	24,913	7,350
TOTAL DISBURSEMENTS	32,263	32,263	24,913	7,350
EXCESS OF RECEIPTS OVER DISBURSEMENTS	17,737	17,737	24,616	6,879
FUND BALANCE, January 1	82,902	82,902	82,902	-
FUND BALANCE, December 31	<u>\$ 100,639</u>	<u>\$ 100,639</u>	<u>\$ 107,518</u>	<u>\$ 6,879</u>

CITY OF KNOB NOSTER, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended December 31, 2014

Budgets and Budgetary Accounting

The City utilizes the following procedures in establishing the budgetary data reflected in the Budgetary Comparison Schedule:

1. Prior to January, the City Administrator submits to the Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed disbursement plans and the proposed means of financing them.
2. One public hearing is conducted by the City in late December to obtain taxpayers' comments on the proposed budget.
3. Prior to January 1, the City adopts a budget for the City.
4. The budget for the City is adopted on the modified cash basis. Budgeted amounts may be amended during the year by the City.