

CITY OF KNOB NOSTER, MISSOURI

BASIC FINANCIAL STATEMENTS

Year Ended December 31, 2015

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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, 2015, 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.

www.kpmcpa.com

1445 E. Republic Road, Springfield, MO 65804 | 417-882-4300 | fax 417-882-4343
500 W. Main Street Suite 200, Branson, MO 65616 | 417-334-2987 | fax 417-336-3403

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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 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, 2015, 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 pension information, 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
May 23, 2016

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF NET POSITION -- MODIFIED CASH BASIS
 December 31, 2015

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> | <u>Total</u> |
|-------------------------------------|------------------------------------|-------------------------------------|---------------------|
| ASSETS | | | |
| Cash and investments - unrestricted | \$ 404,700 | \$ 347,141 | \$ 751,841 |
| Cash and investments - restricted | 875 | 411,409 | 412,284 |
| TOTAL ASSETS | <u>\$ 405,575</u> | <u>\$ 758,550</u> | <u>\$ 1,164,125</u> |
| NET POSITION | | | |
| Restricted | \$ 875 | \$ 411,409 | \$ 412,284 |
| Unrestricted | 404,700 | 347,141 | 751,841 |
| TOTAL NET POSITION | <u>\$ 405,575</u> | <u>\$ 758,550</u> | <u>\$ 1,164,125</u> |

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF ACTIVITIES – MODIFIED CASH BASIS
 Year Ended December 31, 2015

| 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 | \$ 12,873 | \$ - | \$ - | \$ (214,986) | \$ - | \$ (214,986) |
| Public safety | 46,870 | - | - | (553,258) | - | (553,258) |
| Public works | - | - | - | (165,737) | - | (165,737) |
| Fire | - | - | - | (25,118) | - | (25,118) |
| TOTAL GOVERNMENTAL ACTIVITIES | (1,018,842) | - | - | (959,099) | - | (959,099) |
| Business-Type Activities | | | | | | |
| Water and sewer | 714,846 | - | - | - | 47,346 | 47,346 |
| TOTAL BUSINESS-TYPE ACTIVITIES | 714,846 | - | - | - | 47,346 | 47,346 |
| TOTAL GOVERNMENT | \$ (1,686,342) | \$ - | \$ - | (959,099) | 47,346 | (911,753) |
| General Receipts: | | | | | | |
| Property taxes | | | | 224,781 | - | 224,781 |
| Sales taxes | | | | 578,120 | - | 578,120 |
| Franchise taxes | | | | 208,173 | - | 208,173 |
| Motor vehicle taxes | | | | 106,264 | - | 106,264 |
| Cigarette tax | | | | 2,710 | - | 2,710 |
| Interest | | | | 1,785 | 11,985 | 13,770 |
| Miscellaneous | | | | 10,106 | - | 10,106 |
| | | | Total General Receipts | 1,131,939 | 11,985 | 1,143,924 |
| | | | Changes in Net Position | 172,840 | 59,331 | 232,171 |
| | | | Net Position, Beginning of year | 232,735 | 699,219 | 931,954 |
| | | | Net Position, End of year | \$ 405,575 | \$ 758,550 | \$ 1,164,125 |

See accompanying notes.

FUND FINANCIAL STATEMENTS

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF ASSETS AND FUND BALANCES – GOVERNMENTAL FUNDS – MODIFIED CASH
 BASIS
 December 31, 2015

| | General Fund | Special Revenue Fund Fire Fund | Total Governmental Funds |
|-------------------------------------|-------------------|--|--------------------------------|
| ASSETS | | | |
| Cash and investments - unrestricted | \$ 257,115 | \$ 147,585 | \$ 404,700 |
| Cash and investments - restricted | 875 | - | 875 |
| TOTAL ASSETS | <u>\$ 257,990</u> | <u>\$ 147,585</u> | <u>\$ 405,575</u> |
| FUND BALANCE | | | |
| Restricted for: | | | |
| Court bonds | \$ 875 | \$ - | \$ 875 |
| Assigned to: | | | |
| City Hall building | 1,974 | - | 1,974 |
| Fire department | - | 147,585 | 147,585 |
| Unassigned | 255,141 | - | 255,141 |
| TOTAL FUND BALANCE | <u>\$ 257,990</u> | <u>\$ 147,585</u> | <u>\$ 405,575</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, 2015

| | General Fund | Special Revenue Fund Fire Fund | Total Governmental Funds |
|--|-------------------|--|--------------------------------|
| RECEIPTS | | | |
| Taxes | \$ 1,054,863 | \$ 65,185 | \$ 1,120,048 |
| Licenses and permits | 12,873 | - | 12,873 |
| Fines and forfeitures | 46,870 | - | 46,870 |
| Interest | 1,785 | - | 1,785 |
| Miscellaneous | 10,106 | - | 10,106 |
| TOTAL RECEIPTS | 1,126,497 | 65,185 | 1,191,682 |
| DISBURSEMENTS | | | |
| Current | | | |
| Administrative | 227,859 | - | 227,859 |
| Public safety | 600,128 | - | 600,128 |
| Public works | 165,737 | - | 165,737 |
| Fire | - | 25,118 | 25,118 |
| TOTAL DISBURSEMENTS | 993,724 | 25,118 | 1,018,842 |
| EXCESS OF RECEIPTS OVER DISBURSEMENTS | 132,773 | 40,067 | 172,840 |
| FUND BALANCE, January 1 | 125,217 | 107,518 | 232,735 |
| FUND BALANCE, December 31 | <u>\$ 257,990</u> | <u>\$ 147,585</u> | <u>\$ 405,575</u> |

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF NET POSITION – PROPRIETARY FUND – MODIFIED CASH BASIS
 December 31, 2015

| | <u>Water and Sewer Fund</u> |
|--|---------------------------------|
| ASSETS | |
| Cash and cash equivalents - unrestricted | \$ 347,141 |
| Cash and cash equivalents - restricted | <u>411,409</u> |
| TOTAL ASSETS | <u><u>\$ 758,550</u></u> |
| NET POSITION | |
| Restricted | \$ 411,409 |
| Unrestricted | <u>347,141</u> |
| TOTAL NET POSTION | <u><u>\$ 758,550</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, 2015

| | <u>Water and Sewer Fund</u> |
|--|---------------------------------|
| OPERATING RECEIPTS | |
| Charges for services | \$ 714,846 |
| TOTAL OPERATING RECEIPTS | <u>714,846</u> |
| OPERATING DISBURSEMENTS | |
| Salaries | 99,203 |
| Payroll taxes | 7,287 |
| Employee benefits | 25,360 |
| Phone and utilities | 157,668 |
| Office supplies | 129 |
| Operating supplies | 14,169 |
| Advertising | 1,290 |
| Insurance | 11,760 |
| Repairs and maintenance | 85,162 |
| Travel, meetings and dues | 3,157 |
| Vehicle expense | 19,409 |
| Administrative | 90,000 |
| Other expense | 26,751 |
| Laboratory fees | 6,214 |
| TOTAL OPERATING DISBURSEMENTS | <u>547,559</u> |
| OPERATING INCOME | 167,287 |
| NONOPERATING RECEIPTS (DISBURSEMENTS) | |
| Debt service | |
| Principal payment | (50,000) |
| Interest payment | (25,800) |
| Fees | (3,073) |
| Capital outlay | (41,068) |
| Interest receipts | 11,985 |
| TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS) | <u>(107,956)</u> |
| NET INCOME | 59,331 |
| NET POSITION, January 1 | <u>699,219</u> |
| NET POSITION, December 31 | <u>\$ 758,550</u> |

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF CASH FLOWS -- PROPRIETARY FUND -- MODIFIED CASH BASIS
 Year Ended December 31, 2015

| | <u>Water and Sewer Fund</u> |
|---|---------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 714,846 |
| Cash paid to suppliers | (415,709) |
| Cash paid to employees | <u>(131,850)</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 167,287 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Principal paid on debt | (50,000) |
| Interest paid on debt | (25,800) |
| Fees paid on debt | (3,073) |
| Capital outlay | <u>(41,068)</u> |
| NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES | (119,941) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest received | <u>11,985</u> |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 11,985 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 59,331 |
| CASH AND CASH EQUIVALENTS, Beginning of year | <u>699,219</u> |
| CASH AND CASH EQUIVALENTS, End of year | 758,550 |
| LESS RESTRICTED CASH AND CASH EQUIVALENTS | <u>411,409</u> |
| UNRESTRICTED CASH AND CASH EQUIVALENTS | <u><u>\$ 347,141</u></u> |
| | |
| RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | |
| Operating income | \$ 167,287 |
| Adjustments to reconcile operating income to net cash provided by operating activities | <u>-</u> |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u><u>\$ 167,287</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.

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:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 balance, 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.

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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 proprietary fund financial statements, net position 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”.

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

When an expense is incurred for purposes for which both restricted and unrestricted net position 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, 2015, all bank balances on deposit are entirely insured or collateralized with securities.

NOTE C – INVESTMENTS

Investments of the City as of December 31, 2015, are as follows:

| <u>Investment Type</u> | <u>Maturity</u> | <u>Fair Value</u> |
|-------------------------|----------------------|-------------------|
| Certificates of Deposit | 2/15/2016 - 1/6/2018 | <u>\$ 306,348</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, 2015, all certificates of deposit are entirely insured or collateralized with securities.

The City has no policy on interest rate risk.

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

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 \$875 for court bonds.

Enterprise Fund

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:

| | <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 | \$ 34,015 | \$ 34,015 |
| Depreciation and Replacement Funds | 303,272 | 303,272 |
| Customer Utility Deposits | 74,122 | 74,122 |
| | <u>\$ 411,409</u> | <u>\$ 411,409</u> |

NOTE E – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES

Long-term liabilities for governmental activities at December 31, 2015, consist of compensated absences.

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

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

The following is a summary of the changes in long-term liabilities – governmental activities for the year ended December 31, 2015:

| | Balance December 31, 2014 | New Obligations | Retirements | Balance December 31, 2015 |
|----------------------|---------------------------------|--------------------|-------------|---------------------------------|
| Compensated Absences | \$ 38,808 | \$ 1,750 | \$ - | \$ 40,558 |

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

Long-term liabilities for business-type activities at December 31, 2015, 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, 2015, are due as follows:

| Year Ended December 31, | Principal | Interest | Administrative Fee | Total |
|----------------------------|-------------------|-------------------|-----------------------|-------------------|
| 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>\$ 500,000</u> | <u>\$ 111,320</u> | <u>\$ 12,550</u> | <u>\$ 623,870</u> |

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

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

The following is a summary of the changes in long-term liabilities – business-type activities for the year ended December 31, 2015:

| | Balance December 31, 2014 | New Obligations | Retired | Balance December 31, 2015 |
|---------------------|---------------------------------|--------------------|-----------|---------------------------------|
| 2003C Revenue Bonds | \$ 550,000 | \$ - | \$ 50,000 | \$ 500,000 |

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, 2015, 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:

| | |
|---|---------------|
| Assessed Valuation | 2015 |
| Real estate | \$ 18,317,097 |
| Personal property | 3,505,021 |
| TOTAL | \$ 21,822,118 |
| Tax Rates Per \$100 of Assessed Valuation | |
| General Fund | \$.6796 |
| Fire Fund | .3000 |
| TOTAL | \$.9796 |

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

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

The legal debt margin at December 31, 2015, was computed as follows:

| | General Obligation Bonds | | |
|----------------------------------|--------------------------|---------------------|---------------------|
| | Ordinary (1) | Additional (2) | Total |
| Constitutional Debt Limit | \$ 2,182,212 | \$ 2,182,212 | \$ 4,364,424 |
| General Obligation Bonds Payable | - | - | - |
| LEGAL DEBT MARGIN | \$ 2,182,212 | \$ 2,182,212 | \$ 4,364,424 |

(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

Summary of Significant Accounting Policies

The financial statements were prepared using the modified cash basis of accounting. Therefore, employer contributions are recognized when paid and the City's net pension liability, deferred outflows and inflows of resources related to pensions are not recorded in the financial statements.

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.

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE I – EMPLOYEE PENSION PLAN (continued)

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.

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>2015 Valuation</u> |
|----------------------|--------------------------------------|
| Benefit Multiplier | 1.00% for life, plus 1.00% to age 65 |
| 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 April 250, 2015, 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 | 9 | 2 | 11 |
| Inactive employees entitled to but not yet receiving benefits | 1 | 10 | 11 |
| Active employees | <u>11</u> | <u>4</u> | <u>15</u> |
| | <u>21</u> | <u>16</u> | <u>37</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 13.4% (General) and 9.6% (Police) of annual covered payroll.

NOTE I – EMPLOYEE PENSION PLAN (continued)

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

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

| | |
|---------------------------|--|
| Inflation | 3.5% wage inflation; 3.0% price inflation |
| Salary Increase | 3.5% to 6.8% including wage inflation for general and police |
| Investment rate of return | 7.25%, net of investment and administrative expenses |

Mortality rates were based on the 1994 Group Annuity Mortality Table set back 3 years for both males and females.

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

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

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

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

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2015

NOTE I – EMPLOYEE PENSION PLAN (continued)

Sensitivity of the Net Pension Liability/Asset to Changes in the Discount Rate. The following present the Net Pension Liability (Asset) of the employer, calculated using the discount rate of 7.25%, as well as what the employer’s Net Pension Liability (Asset) 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 | \$ 939,426 | \$ 835,864 | \$ 749,053 |
| Fiduciary Net Position | 620,889 | 620,889 | 620,889 |
| Net Pension Liability | 318,537 | 214,975 | 128,164 |
| <i>Police Division</i> | | | |
| Total Pension Liability | 566,532 | 491,415 | 430,603 |
| Fiduciary Net Position | 549,629 | 549,629 | 549,629 |
| Net Pension Liability (Asset) | 16,903 | (58,214) | (119,026) |
| Total Net Pension Liability | \$ 335,440 | \$ 156,761 | \$ 9,138 |

Pension Expense

For the year ended December 31, 2015, the employer recognized pension expense of \$64,553.

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, 2015

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 \$611,320. Principal and interest paid for the current year and total customer net receipts were \$75,800 and \$167,287, respectively.

NOTE L – SUBSEQUENT EVENT

On April 5, 2016, the citizens of Knob Noster voted to issue General Obligation bonds in the amount of \$950,000 for the purpose of constructing and equipping a new building to house city hall and the police department. The City will collect a debt service levy to pay for the bonds over the next twenty years.

SUPPLEMENTARY INFORMATION

CITY OF KNOB NOSTER, MISSOURI
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
 Year Ended December 31, 2015

Missouri Local Government Employees Retirement System (LAGERS)

| | June 30, 2015 |
|---|------------------------|
| TOTAL PENSION LIABILITY | |
| Service Cost | \$ 49,460 |
| Interest on the Total Pension Liability | 95,275 |
| Difference between expected and actual experience | (64,024) |
| Benefit Payments | (85,051) |
| | <hr/> |
| NET CHANGE IN TOTAL PENSION LIABILITY | (4,340) |
| TOTAL PENSION LIABILITY, BEGINNING | <hr/> 1,331,619 |
| TOTAL PENSION LIABILITY, ENDING | 1,327,279 |
| PLAN FIDUCIARY NET POSITION | |
| Contributions - employer | 67,004 |
| Pension Plan Net Investment Income | 22,948 |
| Benefit Payments | (85,051) |
| Pension Plan Administrative Expense | (2,889) |
| Other | (26,902) |
| | <hr/> |
| NET CHANGE IN PLAN FIDUCIARY NET POSITION | (24,890) |
| PLAN FIDUCIARY NET POSITION, BEGINNING | <hr/> 1,195,408 |
| PLAN FIDUCIARY NET POSITION, ENDING | <hr/> 1,170,518 |
| EMPLOYER NET PENSION LIABILITY | <hr/> <hr/> \$ 156,761 |
| Plan fiduciary net position as a percentage of the total pension liability | 88.19% |
| Covered employee payroll | \$ 536,892 |
| Employer's net pension liability as a percentage of covered employee payroll | 29.20% |

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

CITY OF KNOB NOSTER, MISSOURI
 SCHEDULE OF CONTRIBUTIONS
 Year Ended December 31, 2015

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

| | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Actuarially determined contribution | \$ 64,553 | \$ 77,522 | \$ 82,512 | \$ 79,734 | \$ 75,846 | \$ 84,999 | \$ 65,013 | \$ 64,963 | \$ 69,766 | \$ 72,093 |
| Contributions in relation to the actuarially determined contribution | 64,553 | 77,522 | 77,941 | 78,300 | 72,231 | 76,558 | 65,013 | 64,963 | 69,766 | 72,093 |
| Contribution deficiency (excess) | \$ - | \$ - | \$ 4,571 | \$ 1,434 | \$ 3,615 | \$ 8,441 | \$ - | \$ - | \$ - | \$ - |
| Covered-employee payroll | \$ 536,892 | \$ 594,891 | \$ 631,057 | \$ 631,935 | \$ 633,335 | \$ 673,492 | \$ 611,802 | \$ 600,038 | \$ 632,036 | \$ 636,554 |
| Contributions as a percentage of covered-employee payroll | 12.02% | 13.03% | 12.35% | 12.39% | 11.40% | 11.37% | 10.63% | 10.83% | 11.04% | 11.33% |

CITY OF KNOB NOSTER, MISSOURI
NOTES TO SCHEDULE OF CONTRIBUTIONS
Year Ended December 31, 2015

Valuation Date: February 28, 2015.

Notes: The roll-forward of total pension liability from February 28, 2015, to April 250, 2015, 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

Amortization Method – Level Percentage of Payroll, Closed

Remaining Amortization Period – Multiple bases from 14 to 15 years

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

Inflation – 3.5% wage inflation; 3.0% price inflation

Salary Increases – 3.5% to 6.8% including wage inflation for the general and police division

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

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

Mortality – 105% of the 1994 Group Annuity Mortality Table set back 0 years for men and 0 years for women. Based upon experience observed during the most recent 5-year period study, it appears that the current table provides for an approximate 13% margin for future mortality improvement.

Other Information – None

CITY OF KNOB NOSTER, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
 Year Ended December 31, 2015

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|--|--------------------|-------------------|-------------------|----------------------------------|
| RECEIPTS | | | | |
| Taxes | | | | |
| Property taxes | \$ 150,000 | \$ 150,000 | \$ 159,596 | \$ 9,596 |
| Sales taxes | 515,000 | 515,000 | 578,120 | 63,120 |
| Franchise taxes | 210,000 | 210,000 | 208,173 | (1,827) |
| Motor vehicle taxes | 89,000 | 89,000 | 106,264 | 17,264 |
| Cigarette tax | 2,000 | 2,000 | 2,710 | 710 |
| | <u>966,000</u> | <u>966,000</u> | <u>1,054,863</u> | <u>88,863</u> |
| Licenses and Permits | | | | |
| Merchant licenses | 5,925 | 5,925 | 5,430 | (495) |
| Building permits | 9,000 | 9,000 | 7,443 | (1,557) |
| | <u>14,925</u> | <u>14,925</u> | <u>12,873</u> | <u>(2,052)</u> |
| Fines and Forfeitures | | | | |
| Court fines | 40,750 | 40,750 | 46,870 | 6,120 |
| Miscellaneous | | | | |
| Interest | 100 | 100 | 1,785 | 1,685 |
| Other receipts | 124,800 | 124,800 | 10,106 | (114,694) |
| | <u>124,900</u> | <u>124,900</u> | <u>11,891</u> | <u>(113,009)</u> |
| TOTAL RECEIPTS | <u>1,146,575</u> | <u>1,146,575</u> | <u>1,126,497</u> | <u>(20,078)</u> |
| DISBURSEMENTS | | | | |
| Current | | | | |
| Administrative | 216,123 | 216,123 | 227,859 | (11,736) |
| Public safety | 614,468 | 614,468 | 600,128 | 14,340 |
| Public works | 244,271 | 322,240 | 165,737 | 156,503 |
| Recreation | 300 | 300 | - | 300 |
| | <u>1,075,162</u> | <u>1,153,131</u> | <u>993,724</u> | <u>159,407</u> |
| EXCESS (DEFICIT) OF RECEIPTS OVER DISBURSEMENTS | | | | |
| | 71,413 | (6,556) | 132,773 | 139,329 |
| FUND BALANCE, January 1 | <u>125,217</u> | <u>125,217</u> | <u>125,217</u> | <u>-</u> |
| FUND BALANCE, December 31 | <u>\$ 196,630</u> | <u>\$ 118,661</u> | <u>\$ 257,990</u> | <u>\$ 139,329</u> |

CITY OF KNOB NOSTER, MISSOURI
 BUDGETARY COMPARISON SCHEDULE -- FIRE FUND -- MODIFIED CASH BASIS
 Year Ended December 31, 2015

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|--|--------------------|-------------------|-------------------|----------------------------------|
| RECEIPTS | | | | |
| Taxes | | | | |
| Property taxes | \$ 45,000 | \$ 45,000 | \$ 65,185 | \$ 20,185 |
| TOTAL RECEIPTS | 45,000 | 45,000 | 65,185 | 20,185 |
| DISBURSEMENTS | | | | |
| Current | | | | |
| Fire | 30,849 | 30,849 | 25,118 | 5,731 |
| TOTAL DISBURSEMENTS | 30,849 | 30,849 | 25,118 | 5,731 |
| EXCESS OF RECEIPTS OVER DISBURSEMENTS | 14,151 | 14,151 | 40,067 | 25,916 |
| FUND BALANCE, January 1 | 107,518 | 107,518 | 107,518 | - |
| FUND BALANCE, December 31 | <u>\$ 121,669</u> | <u>\$ 121,669</u> | <u>\$ 147,585</u> | <u>\$ 25,916</u> |

CITY OF KNOB NOSTER, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended December 31, 2015

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.