

CITY OF KNOB NOSTER, MISSOURI

BASIC FINANCIAL STATEMENTS

Year Ended December 31, 2017

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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, 2017, 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

Member of The Leading Edge Alliance

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, 2017, 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, which is the responsibility of management, is presented for purposes of additional analysis and is 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
April 18, 2018

FUND FINANCIAL STATEMENTS

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

December 31, 2017

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
ASSETS				
Cash and investments - unrestricted	\$ 220,032	\$ 210,561	\$ -	\$ 430,593
Cash and investments - restricted	500	-	32,271	32,771
TOTAL ASSETS	<u>\$ 220,532</u>	<u>\$ 210,561</u>	<u>\$ 32,271</u>	<u>\$ 463,364</u>
FUND BALANCE				
Restricted for:				
Court bonds	\$ 500	\$ -	\$ -	\$ 500
Debt service	-	-	32,271	32,271
Assigned to:				
Fire department	-	210,561	-	210,561
Unassigned	220,032	-	-	220,032
TOTAL FUND BALANCE	<u>\$ 220,532</u>	<u>\$ 210,561</u>	<u>\$ 32,271</u>	<u>\$ 463,364</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, 2017

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
RECEIPTS				
Taxes	\$ 1,064,546	\$ 62,149	\$ 66,292	\$ 1,192,987
Licenses and permits	12,972	-	-	12,972
Fines and forfeitures	38,692	-	-	38,692
Interest	3,304	-	158	3,462
Miscellaneous	11,464	-	-	11,464
TOTAL RECEIPTS	1,130,978	62,149	66,450	1,259,577
DISBURSEMENTS				
Current				
Administrative	1,378,989	-	-	1,378,989
Public safety	682,820	-	-	682,820
Public works	96,190	-	-	96,190
Fire	-	32,935	-	32,935
Debt service				
Principal, interest and fees	-	-	43,479	43,479
TOTAL DISBURSEMENTS	2,157,999	32,935	43,479	2,234,413
EXCESS (DEFICIT) OF RECEIPTS OVER DISBURSEMENTS	(1,027,021)	29,214	22,971	(974,836)
OTHER FINANCING SOURCES				
Operating transfers in	139,612	-	-	139,612
EXCESS (DEFICIT) OF RECEIPTS AND OTHER SOURCES OVER DISBURSEMENTS	(887,409)	29,214	22,971	(835,224)
FUND BALANCE, January 1	1,107,941	181,347	9,300	1,298,588
FUND BALANCE, December 31	<u>\$ 220,532</u>	<u>\$ 210,561</u>	<u>\$ 32,271</u>	<u>\$ 463,364</u>

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
 STATEMENT OF NET POSITION – PROPRIETARY FUND – MODIFIED CASH BASIS
 December 31, 2017

	<u>Water and Sewer Fund</u>
ASSETS	
Cash and cash equivalents - unrestricted	\$ 251,929
Cash and cash equivalents - restricted	<u>518,740</u>
TOTAL ASSETS	<u><u>\$ 770,669</u></u>
NET POSITION	
Restricted	\$ 518,740
Unrestricted	<u>251,929</u>
TOTAL NET POSTION	<u><u>\$ 770,669</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, 2017

	<u>Water and Sewer Fund</u>
OPERATING RECEIPTS	
Charges for services	\$ 745,530
TOTAL OPERATING RECEIPTS	<u>745,530</u>
OPERATING DISBURSEMENTS	
Salaries	88,785
Payroll taxes	6,328
Employee benefits	29,157
Phone and utilities	168,172
Office supplies	47
Operating supplies	15,410
Advertising	640
Insurance	11,916
Repairs and maintenance	60,886
Travel, meetings and dues	3,002
Vehicle expense	10,559
Administrative	90,000
Other expense	48,557
Laboratory fees	5,086
Professional services	110
TOTAL OPERATING DISBURSEMENTS	<u>538,655</u>
OPERATING INCOME	206,875
NONOPERATING RECEIPTS (DISBURSEMENTS)	
Debt service	
Principal payment	(62,754)
Interest payment	(22,309)
Fees	(2,643)
Capital outlay	(14,339)
Interest receipts	9,736
TOTAL NONOPERATING RECEIPTS (DISBURSEMENTS)	<u>(92,309)</u>
INCOME BEFORE OPERATING TRANSFERS	114,566
OPERATING TRANSFER (OUT)	<u>(139,612)</u>
NET (LOSS)	(25,046)
NET POSITION, January 1	<u>795,715</u>
NET POSITION, December 31	<u>\$ 770,669</u>

See accompanying notes.

CITY OF KNOB NOSTER, MISSOURI
STATEMENT OF CASH FLOWS – PROPRIETARY FUND – MODIFIED CASH BASIS
Year Ended December 31, 2017

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 745,530
Cash paid to suppliers	(414,385)
Cash paid to employees	(124,270)
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	206,875
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfer to General Fund	(139,612)
	<hr/>
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	(139,612)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on debt	(62,754)
Interest paid on debt	(22,309)
Fees paid on debt	(2,643)
Capital outlay	(14,339)
	<hr/>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(102,045)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	9,736
	<hr/>
NET CASH PROVIDED BY INVESTING ACTIVITIES	9,736
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(25,046)
CASH AND CASH EQUIVALENTS, Beginning of year	795,715
	<hr/>
CASH AND CASH EQUIVALENTS, End of year	770,669
LESS RESTRICTED CASH AND CASH EQUIVALENTS	518,740
	<hr/>
UNRESTRICTED CASH AND CASH EQUIVALENTS	<u>\$ 251,929</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income	\$ 206,875
Adjustments to reconcile operating income to net cash provided by operating activities	-
	<hr/>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 206,875</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.

Debt Service Fund: The Debt Service Fund of the City is used to account for resources restricted, committed or assigned for, and for payment of long-term debt principal, interest, and related costs.

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.

Pooled Cash and Cash Equivalents

The City pools resources of its various funds in order to facilitate cost management. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash account is available to meet current operating requirements. For purposes of the statement of cash flows, 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)

Investments

Investments in non-negotiable certificates of deposit are carried at cost.

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.

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.

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:

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

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.

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 are available, the City first applies restricted net position.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Operating Receipts and Disbursements

Operating receipts and disbursements for proprietary funds are those that result from providing services and producing and delivering goods and services. All other receipts and disbursements are considered nonoperating.

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, 2017, all bank balances on deposit are entirely insured or collateralized with securities.

NOTE C – INVESTMENTS

Investments of the City as of December 31, 2017, are as follows:

<u>Investment Type</u>	<u>Maturity</u>	<u>Total</u>
Certificates of Deposit	1/6/2018 - 8/10/2019	\$ 227,157

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, 2017, all certificates of deposit are entirely insured or collateralized with securities.

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE C – INVESTMENTS (continued)

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 Activities

Cash and investments and fund balances/net position in the General Fund have been restricted in the following funds:

	<u>Restricted Cash and Investments</u>	<u>Restricted Fund Balance/ Net Position</u>
GENERAL FUND		
Municipal Court Bonds	\$ 500	\$ 500
DEBT SERVICE FUND		
Debt service	\$ 32,271	\$ 32,271

Business-Type Activities

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 Investments</u>	<u>Restricted Net Position</u>
WATER AND SEWER FUND		
2003C Series Combined Waterworks and Sewerage System		
Bond Principal and Interest Funds	\$ 35,214	\$ 35,214
Depreciation and Replacement Funds	405,929	405,929
Customer Utility Deposits	77,597	77,597
	<u>\$ 518,740</u>	<u>\$ 518,740</u>

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

NOTE E – LONG-TERM LIABILITIES – GOVERNMENTAL ACTIVITIES

Long-term liabilities for governmental activities at December 31, 2017, consist of the Series 2016 General Obligation Bonds, one capital lease, and compensated absences.

General Obligation Bonds

In August 2016, the City issued \$950,000 in Series 2016 General Obligation Bonds for the purpose of constructing and equipping a new City Hall and Police Department. The bonds bear interest ranging from 1.5% to 3.5% with principal payments due March 1 and interest payments due March 1 and September 1 each year. The bonds may be called for redemption under provisions outlined in the bond ordinance.

The annual debt service requirements to amortize the principal on the bonds outstanding at December 31, 2017, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 40,000	\$ 26,119	\$ 66,119
2019	40,000	25,519	65,519
2020	40,000	24,819	64,819
2021	40,000	24,018	64,018
2022	40,000	23,143	63,143
2023	45,000	22,134	67,134
2024	45,000	21,066	66,066
2025	45,000	19,997	64,997
2026	50,000	18,712	68,712
2027	50,000	17,212	67,212
2028	50,000	15,712	65,712
2029	50,000	14,212	64,212
2030	50,000	12,650	62,650
2031	55,000	10,944	65,944
2032	55,000	9,156	64,156
2033	55,000	7,369	62,369
2034	60,000	5,426	65,426
2035	60,000	3,326	63,326
2036	65,000	1,138	66,138
	<u>\$ 935,000</u>	<u>\$ 302,672</u>	<u>\$ 1,237,672</u>

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

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

Capital Lease Obligation

In April 2016, the City entered into a lease purchase agreement to finance the purchase of three Ford Police Interceptors and one F-250 truck in the amount of \$133,580. 75% of the lease is accounted for within the governmental activities and 25% is accounted for within the business-type activities. The lease requires annual payments of \$35,853, which includes interest at 4.95%.

The City's lease purchase agreement provides for the cancellation of the lease at the City's option on the renewal dates, however, the City does not foresee exercising its option to cancel.

The following is a schedule of the future minimum lease payments under the lease agreement (assuming noncancellation):

<u>Year Ending December 31,</u>	<u>2016 Ford Lease</u>
2018	\$ 26,890
2019	26,890
TOTAL MINIMUM LEASE PAYMENTS	53,780
LESS AMOUNT REPRESENTING INTEREST	(3,746)
PRINCIPAL BALANCE, DECEMBER 31, 2017	<u>\$ 50,034</u>

The following is a summary of the changes in long-term liabilities – governmental activities for the year ended December 31, 2017:

	<u>Balance December 31, 2016</u>	<u>New Obligations</u>	<u>Retirements</u>	<u>Balance December 31, 2017</u>	<u>Amount Due Within One Year</u>
Series 2016 G.O. Bonds	\$ 950,000	\$ -	\$ 15,000	\$ 935,000	\$ 40,000
2016 Ford Lease	73,295	-	23,261	50,034	24,413
Compensated Absences	30,482	-	742	29,740	-
	<u>\$ 1,053,777</u>	<u>\$ -</u>	<u>\$ 39,003</u>	<u>\$ 1,014,774</u>	<u>\$ 64,413</u>

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

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

Long-term liabilities for business-type activities at December 31, 2017, consists of the Series 2003C revenue bonds payable and one capital lease obligation.

Revenue Bonds

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, 2017, are due as follows:

Year Ending December 31,	Principal	Interest	Administrative Fee	Total
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
	\$ 390,000	\$ 66,920	\$ 7,503	\$ 464,423

Capital Lease Obligation

In April 2016, the City entered into a lease purchase agreement to finance the purchase of three Ford Police Interceptors and one F-250 truck in the amount of \$133,580. 75% of the lease is accounted for within the governmental activities and 25% is accounted for within the business-type activities. The lease requires annual payments of \$35,853, which includes interest at 4.95%.

The City's lease purchase agreement provides for the cancellation of the lease at the City's option on the renewal dates, however, the City does not foresee exercising its option to cancel.

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

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

The following is a schedule of the future minimum lease payments under the lease agreement (assuming noncancellation):

Year Ending December 31,	2016 Ford Lease
2018	\$ 8,963
2019	8,963
TOTAL MINIMUM LEASE PAYMENTS	17,926
LESS AMOUNT REPRESENTING INTEREST	(1,248)
PRINCIPAL BALANCE, DECEMBER 31, 2017	<u>\$ 16,678</u>

The following is a summary of the changes in long-term liabilities – business-type activities for the year ended December 31, 2017:

	Balance December 31, 2016	New Obligations	Retired	Balance December 31, 2017	Amount Due Within One Year
Series 2003C Revenue Bonds	\$ 445,000	\$ -	\$ 55,000	\$ 390,000	\$ 60,000
2016 Ford Lease	24,432	-	7,754	16,678	8,138
Compensated absences	7,639	713	-	8,352	-
	<u>\$ 477,071</u>	<u>\$ 713</u>	<u>\$ 62,754</u>	<u>\$ 415,030</u>	<u>\$ 68,138</u>

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, 2017, 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.

CITY OF KNOB NOSTER, MISSOURI
 NOTES TO FINANCIAL STATEMENTS
 December 31, 2017

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>2017</u>
Assessed Valuation	
Real estate	\$ 18,437,578
Personal property	<u>3,452,554</u>
TOTAL	<u>\$ 21,890,132</u>
Tax Rates Per \$100 of Assessed Valuation	
General Fund	\$.6894
Fire Fund	.3000
Debt Service Fund	<u>.3200</u>
TOTAL	<u>\$ 1.3094</u>

The legal debt margin at December 31, 2017, was computed as follows:

	<u>General Obligation Bonds</u>		
	<u>Ordinary (1)</u>	<u>Additional (2)</u>	<u>Total</u>
Constitutional debt limit	\$ 2,189,013	\$ 2,189,013	\$ 4,378,026
General Obligation Bonds payable	(935,000)	-	(935,000)
Amount available in Debt Service Fund	<u>32,271</u>	<u>-</u>	<u>32,271</u>
LEGAL DEBT MARGIN	<u>\$ 1,286,284</u>	<u>\$ 2,189,013</u>	<u>\$ 3,475,297</u>

(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.

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) 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 receive a reduced allowance.

	<u>2017 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.

NOTE I – EMPLOYEE PENSION PLAN (continued)

Employees Covered by Benefit Terms. At June 30, 2017, the following employees were covered by the benefit terms:

	<u>General</u>	<u>Police</u>
Inactive employees or beneficiaries currently receiving benefits	9	3
Inactive employees entitled to but not yet receiving benefits	5	12
Active employees	<u>12</u>	<u>7</u>
	<u>26</u>	<u>22</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 15.4% (General) and 8.3% (Police) of annual covered payroll.

During the year ended December 31, 2017, the City made contributions of \$76,529.

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.

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 \$456,920. Principal and interest paid for the current year and total customer net receipts were \$76,100 and \$206,875, respectively.

CITY OF KNOB NOSTER, MISSOURI
NOTES TO FINANCIAL STATEMENTS
December 31, 2017

NOTE L – INTERFUND TRANSFERS

Interfund transfers for the year ended December 31, 2017, consisted of the following:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 139,612	\$ -
Water and Sewer Fund	-	<u>139,612</u>
	<u>\$ 139,612</u>	<u>\$ 139,612</u>

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

SUPPLEMENTARY INFORMATION

CITY OF KNOB NOSTER, MISSOURI
 BUDGETARY COMPARISON SCHEDULE – GENERAL FUND – MODIFIED CASH BASIS
 Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget
RECEIPTS				
Taxes				
Property taxes	\$ 190,000	\$ 190,000	\$ 162,617	\$ (27,383)
Sales taxes	570,000	570,000	587,699	17,699
Franchise taxes	200,000	200,000	201,876	1,876
Motor vehicle taxes	97,000	97,000	109,301	12,301
Cigarette tax	2,100	2,100	3,053	953
	<u>1,059,100</u>	<u>1,059,100</u>	<u>1,064,546</u>	<u>5,446</u>
Licenses and Permits				
Merchant licenses	6,800	6,800	5,500	(1,300)
Building permits	6,000	6,000	7,472	1,472
	<u>12,800</u>	<u>12,800</u>	<u>12,972</u>	<u>172</u>
Fines and Forfeitures				
Court fines	30,050	30,050	38,692	8,642
Miscellaneous				
Interest	50	50	3,304	3,254
Other receipts	9,050	9,050	11,464	2,414
	<u>9,100</u>	<u>9,100</u>	<u>14,768</u>	<u>5,668</u>
TOTAL RECEIPTS	<u>1,111,050</u>	<u>1,111,050</u>	<u>1,130,978</u>	<u>19,928</u>
DISBURSEMENTS				
Current				
Administrative	268,662	1,102,773	1,378,989	(276,216)
Public safety	658,463	658,463	682,820	(24,357)
Public works	90,399	90,399	96,190	(5,791)
Recreation	300	300	-	300
TOTAL DISBURSEMENTS	<u>1,017,824</u>	<u>1,851,935</u>	<u>2,157,999</u>	<u>(306,064)</u>
EXCESS (DEFICIT) OF RECEIPTS OVER DISBURSEMENTS	93,226	(740,885)	(1,027,021)	(286,136)
OTHER FINANCING SOURCES				
Operating transfers in	-	-	139,612	139,612
EXCESS (DEFICIT) OF RECEIPTS AND OTHER SOURCES OVER DISBURSEMENTS	93,226	(740,885)	(887,409)	(146,524)
FUND BALANCE, January 1	<u>1,107,941</u>	<u>1,107,941</u>	<u>1,107,941</u>	<u>-</u>
FUND BALANCE, December 31	<u>\$ 1,201,167</u>	<u>\$ 367,056</u>	<u>\$ 220,532</u>	<u>\$ (146,524)</u>

CITY OF KNOB NOSTER, MISSOURI
 BUDGETARY COMPARISON SCHEDULE -- FIRE FUND -- MODIFIED CASH BASIS
 Year Ended December 31, 2017

	Original Budget	Final Budget	Actual	Variance With Final Budget
RECEIPTS				
Taxes				
Property taxes	\$ 55,000	\$ 55,000	\$ 62,149	\$ 7,149
TOTAL RECEIPTS	55,000	55,000	62,149	7,149
DISBURSEMENTS				
Current				
Fire	33,499	33,499	32,935	564
TOTAL DISBURSEMENTS	33,499	33,499	32,935	564
EXCESS OF RECEIPTS OVER DISBURSEMENTS				
	21,501	21,501	29,214	7,713
FUND BALANCE, January 1	181,347	181,347	181,347	-
FUND BALANCE, December 31	<u>\$ 202,848</u>	<u>\$ 202,848</u>	<u>\$ 210,561</u>	<u>\$ 7,713</u>

CITY OF KNOB NOSTER, MISSOURI
NOTE TO BUDGETARY COMPARISON SCHEDULES
Year Ended December 31, 2017

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.