

City of Knob Noster, Missouri

BASIC FINANCIAL STATEMENTS
Year Ended December 31, 2019

KPM
CPAS & ADVISORS

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Independent Auditors' Report

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

Report on the Financial Statements

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, 2019, 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 1; 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.

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, 2019, 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 1.

Basis of Accounting

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

Disclaimer of Opinion on Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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
November 17, 2020

Government-Wide Financial Statements

City of Knob Noster

Statement of Net Position – Modified Cash Basis

December 31, 2019

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets			
Cash and investments - unrestricted	\$ 446,654	\$ 443,206	\$ 889,860
Cash and investments - restricted	45,079	570,714	615,793
Total Assets	<u>\$ 491,733</u>	<u>\$ 1,013,920</u>	<u>\$ 1,505,653</u>
Net Position			
Restricted	\$ 45,079	\$ 570,714	\$ 615,793
Unrestricted	446,654	443,206	889,860
Total Net Position	<u>\$ 491,733</u>	<u>\$ 1,013,920</u>	<u>\$ 1,505,653</u>

City of Knob Noster

Statement of Activities – Modified Cash Basis

Year Ended December 31, 2019

Functions/Programs	<u>Disbursements</u>	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							
Administration	\$ (307,418)	\$ 35,363	\$ -	\$ -	\$ (272,055)	\$ -	\$ (272,055)
Public safety	(621,629)	34,866	-	-	(586,763)	-	(586,763)
Public works	(334,671)	-	-	-	(334,671)	-	(334,671)
Fire	(51,193)	-	-	-	(51,193)	-	(51,193)
Debt service	(65,819)	-	-	-	(65,819)	-	(65,819)
Total Governmental Activities	<u>(1,380,730)</u>	<u>70,229</u>	<u>-</u>	<u>-</u>	<u>(1,310,501)</u>	<u>-</u>	<u>(1,310,501)</u>
Business-Type Activities							
Water and sewer	(648,672)	748,460	-	10,000	-	109,788	109,788
Total Business-Type Activities	<u>(648,672)</u>	<u>748,460</u>	<u>-</u>	<u>10,000</u>	<u>-</u>	<u>109,788</u>	<u>109,788</u>
Total Government	<u>\$ (2,029,402)</u>	<u>\$ 818,689</u>	<u>\$ -</u>	<u>\$ 10,000</u>	<u>(1,310,501)</u>	<u>109,788</u>	<u>(1,200,713)</u>
General Receipts							
Property taxes					318,036	-	318,036
Sales taxes					646,636	-	646,636
Franchise taxes					187,441	-	187,441
Motor vehicle taxes					110,331	-	110,331
Cigarette tax					3,042	-	3,042
Interest					9,678	8,070	17,748
Miscellaneous					19,211	-	19,211
Total General Receipts					<u>1,294,375</u>	<u>8,070</u>	<u>1,302,445</u>
<i>Changes in Net Position</i>					(16,126)	117,858	101,732
Net Position, Beginning of year					507,859	896,062	1,403,921
Net Position, End of year					<u>\$ 491,733</u>	<u>\$ 1,013,920</u>	<u>\$ 1,505,653</u>

Fund Financial Statements

City of Knob Noster

Statement of Assets and Fund Balances – Governmental Funds – Modified Cash Basis

December 31, 2019

	General Fund	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
	<u>General Fund</u>	<u>Fire Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets				
Cash and investments - unrestricted	\$ 181,307	\$ 265,347	\$ -	\$ 446,654
Cash and investments - restricted	-	-	45,079	45,079
Total Assets	<u>\$ 181,307</u>	<u>\$ 265,347</u>	<u>\$ 45,079</u>	<u>\$ 491,733</u>
Fund Balance				
Restricted for				
Debt service	\$ -	\$ -	\$ 45,079	\$ 45,079
Assigned to				
Fire department	-	265,347	-	265,347
Unassigned	181,307	-	-	181,307
Total Fund Balance	<u>\$ 181,307</u>	<u>\$ 265,347</u>	<u>\$ 45,079</u>	<u>\$ 491,733</u>

See accompanying notes to the financial statements.

City of Knob Noster

Statement of Receipts, Disbursements, and Changes in Fund Balance – Governmental Funds – Modified Cash Basis

Year Ended December 31, 2019

	General	Special Revenue Fund	Debt Service Fund	Total Governmental Funds
	Fund	Fire Fund	Fund	Fund
Receipts				
Taxes	\$ 1,125,287	\$ 67,838	\$ 72,361	\$ 1,265,486
Licenses and permits	35,363	-	-	35,363
Fines and forfeitures	34,866	-	-	34,866
Interest	9,189	-	489	9,678
Miscellaneous	19,211	-	-	19,211
Total Receipts	<u>1,223,916</u>	<u>67,838</u>	<u>72,850</u>	<u>1,364,604</u>
Disbursements				
Current				
Administration	307,418	-	-	307,418
Public safety	621,629	-	-	621,629
Public works	334,671	-	-	334,671
Fire	-	51,193	-	51,193
Debt service				
Principal, interest and fees	-	-	65,819	65,819
Total Disbursements	<u>1,263,718</u>	<u>51,193</u>	<u>65,819</u>	<u>1,380,730</u>
<i>Excess (Deficit) of Receipts over Disbursements</i>	(39,802)	16,645	7,031	(16,126)
Fund Balance, January 1	221,109	248,702	38,048	507,859
Fund Balance, December 31	<u>\$ 181,307</u>	<u>\$ 265,347</u>	<u>\$ 45,079</u>	<u>\$ 491,733</u>

See accompanying notes to the financial statements.

City of Knob Noster

Statement of Net Position – Proprietary Fund – Modified Cash Basis

December 31, 2019

	<u>Water and Sewer Fund</u>
Assets	
Cash and cash equivalents - unrestricted	\$ 443,206
Cash and investments - restricted	<u>570,714</u>
Total Assets	<u><u>\$ 1,013,920</u></u>
Net Position	
Restricted	\$ 570,714
Unrestricted	<u>443,206</u>
Total Net Position	<u><u>\$ 1,013,920</u></u>

See accompanying notes to the financial statements.

City of Knob Noster

Statement of Receipts, Disbursements, and Changes in Net Position – Proprietary Fund – Modified Cash Basis

Year Ended December 31, 2019

	Water and Sewer Fund
Operating Receipts	
Charges for services	\$ 748,460
Total Operating Receipts	748,460
Operating Disbursements	
Salaries	108,836
Payroll taxes	8,106
Employee benefits	36,099
Administrative	45,000
Phone and utilities	39,296
Trash collection	113,399
Office supplies	131
Operating supplies	16,224
Advertising	416
Insurance	15,270
Repairs and maintenance	51,254
Travel, meetings and dues	6,347
Vehicle expense	13,504
Other expense	13,615
Laboratory fees	6,707
Professional services	1,690
Total Operating Disbursements	475,894
<i>Operating Income</i>	272,566
Nonoperating Receipts (Disbursements)	
Debt service	
Principal payment	(68,540)
Interest payment	(16,253)
Fees	(1,792)
Capital outlay	(86,193)
Grants	10,000
Interest receipts	8,070
Total Nonoperating Receipts (Disbursements)	(154,708)
<i>Net Income</i>	117,858
Net Position, January 1	896,062
Net Position, December 31	\$ 1,013,920

See accompanying notes to the financial statements.

City of Knob Noster

Statement of Cash Flows – Proprietary Fund – Modified Cash Basis

Year Ended December 31, 2019

	Water and Sewer Fund
Cash Flows from Operating Activities	
Cash received from customers	\$ 748,460
Cash paid to suppliers	(277,853)
Cash paid to employees	(198,041)
Net Cash Provided by Operating Activities	272,566
Cash Flows from Capital and Related Financing Activities	
Grant proceeds	10,000
Principal paid on debt	(68,540)
Interest paid on debt	(16,253)
Fees paid on debt	(1,792)
Capital outlay	(86,193)
Net Cash (Used) by Capital and Related Financing Activities	(162,778)
Cash Flows from Investing Activities	
Interest received	8,070
Net Cash Provided by Investing Activities	8,070
<i>Net Increase in Cash and Cash Equivalents</i>	117,858
Cash and Cash Equivalents, Beginning of year	896,062
Cash and Cash Equivalents, End of year	1,013,920
Less Restricted Cash and Cash Equivalents	570,714
Unrestricted Cash and Cash Equivalents	\$ 443,206
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating income	\$ 272,566
Adjustments to reconcile operating income to net cash provided by operating activities	-
Net Cash Provided by Operating Activities	\$ 272,566

See accompanying notes to the financial statements.

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

1. 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, recreation, 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 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 six-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.

The City reports the following major governmental funds:

General Fund: The General Fund is the general operating fund of the City. It is used to account for all financial resources 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.

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

The City reports the following major proprietary fund:

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

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 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 used 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.

Investments

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

Vacation and Sick Leave

Use 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.

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

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 principal 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:

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.

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

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.

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.

2. Cash & 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, 2019, all bank balances on deposit are entirely insured or collateralized with securities.

3. Investments

The City’s investments as of December 31, 2019, are as follows:

<u>Investment Type</u>	<u>Maturity</u>	<u>Total</u>
Certificates of Deposit	11/3/2020	<u>\$ 232,668</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, 2019, all certificates of deposit are entirely insured or collateralized with securities.

The City has no policy on interest rate risk.

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

4. Restricted Assets

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

Governmental Activities

Cash and investments and fund balance/net position has been restricted in the following fund:

	Restricted Cash and Investments	Restricted Fund Balance/ Net Position
Debt Service Fund		
Debt service	\$ 45,079	\$ 45,079

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:

	Restricted Cash and Investments	Restricted Net Position
Water and Sewer Fund		
2003C Series Combined Waterworks and Sewerage System		
Bond Principal and Interest Funds	\$ 36,311	\$ 36,311
Depreciation and Replacement Funds	453,481	453,481
Customer Utility Deposits	80,922	80,922
	\$ 570,714	\$ 570,714

5. Long-Term Liabilities – Governmental Activities

Long-term liabilities for governmental activities at December 31, 2019, consist of the Series 2016 General Obligation Bonds and compensated absences.

Series 2016 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.

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

The annual debt service requirements to amortize the principal on the bonds outstanding at December 31, 2019, are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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>\$ 855,000</u>	<u>\$ 251,034</u>	<u>\$ 1,106,034</u>

The following is a summary of the changes in long-term liabilities – governmental activities for the year ended December 31, 2019:

	<u>Balance December 31, 2018</u>	<u>New Obligations</u>	<u>Retirements</u>	<u>Balance December 31, 2019</u>	<u>Amount Due Within One Year</u>
Series 2016 G.O. Bonds	\$ 895,000	\$ -	\$ 40,000	\$ 855,000	\$ 40,000
2016 Ford Lease	25,621	-	25,621	-	-
Compensated Absences	25,325	-	2,510	22,815	-
	<u>\$ 945,946</u>	<u>\$ -</u>	<u>\$ 68,131</u>	<u>\$ 877,815</u>	<u>\$ 40,000</u>

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

6. Long-Term Liabilities – Business-Type Activities

Long-term liabilities for business-type activities at December 31, 2019, consists of the Series 2003C Revenue Bonds payable and compensated absences.

Series 2003C Combined Waterworks and Sewerage System 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. If the City defaults on the payment of principal or interest on any of the bonds as they become due for a period of 60 days after written notice specifying such default has been given to the City, by the registered owner of any bond then outstanding, the City shall pay to DNR the penalties assessed by DNR in accordance with regulations.

The bonds outstanding at December 31, 2019, are due as follows:

Year Ending December 31,	Direct Placement			
	Principal	Interest	Administrative Fee	Total
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>\$ 270,000</u>	<u>\$ 32,740</u>	<u>\$ 3,659</u>	<u>\$ 306,399</u>

The following is a summary of the changes in long-term liabilities – business-type activities for the year ended December 31, 2019:

	Balance December 31, 2018	New Obligations	Retired	Balance December 31, 2019	Amount Due Within One Year
Direct Placement					
Series 2003C Revenue Bonds	\$ 330,000	\$ -	\$ 60,000	\$ 270,000	\$ 65,000
2016 Ford Lease	8,540	-	8,540	-	-
Compensated Absences	7,512	944	-	8,456	-
	<u>\$ 346,052</u>	<u>\$ 944</u>	<u>\$ 68,540</u>	<u>\$ 278,456</u>	<u>\$ 65,000</u>

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

7. Assessed Valuation, Tax Levy, & Legal Debt Margin

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

	2019
Assessed Valuation	
Real estate	\$ 18,810,303
Personal property	3,755,561
	\$ 22,565,864
 Tax Rates Per \$100 of Assessed Valuation	
General Fund	\$.6905
Fire Fund	.3005
Debt Service Fund	.4799
	\$ 1.4709

The legal debt margin at December 31, 2019, was computed as follows:

	General Obligation Bonds		
	Ordinary (1)	Additional (2)	Total
Constitutional debt limit	\$ 2,256,586	\$ 2,256,586	\$ 4,513,172
General Obligation Bonds payable	(855,000)	-	(855,000)
Amount available in Debt Service Fund	45,079	-	45,079
Legal Debt Margin	\$ 1,446,665	\$ 2,256,586	\$ 3,703,251

(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.

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

8. Claims & 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, 2019, 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.

9. 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>2019 Valuation</u>
Benefit Multiplier	1% for life, plus 1% to age 62
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.

City of Knob Noster

Notes to the Financial Statements

December 31, 2019

Employees Covered by Benefit Terms. At June 30, 2019, which is LAGERS year end and the most recent information available, the following employees were covered by the benefit terms:

	<u>General</u>	<u>Police</u>
Inactive employees or beneficiaries currently receiving benefits	10	3
Inactive employees entitled to but not yet receiving benefits	8	13
Active employees	10	7
	<u>28</u>	<u>23</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 15.5% (General) and 7.0% (Police) of annual covered payroll.

During the year ended December 31, 2019, the City made contributions of \$67,651.

10. 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.

11. 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 \$302,740. Principal and interest paid for the current year and total customer net receipts were \$75,830 and \$272,566, respectively.

12. Risks & Uncertainties

Subsequent to year end, a strain of coronavirus (COVID-19) was identified as a global pandemic and began affecting the health of large portions of the global population. The detrimental impact of the virus is not yet fully determinable, but will likely be significant for the City and the overall economy. COVID-19 has been identified as a significant risk and uncertainty that could impact future operations.

Supplementary Information

City of Knob Noster

Budgetary Comparison Schedule – General Fund – Modified Cash Basis

Year Ended December 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
Receipts				
Taxes				
Property taxes	\$ 209,000	\$ 209,000	\$ 177,837	\$ (31,163)
Sales taxes	590,000	590,000	646,636	56,636
Franchise taxes	202,000	202,000	187,441	(14,559)
Motor vehicle taxes	95,000	95,000	110,331	15,331
Cigarette tax	2,800	2,800	3,042	242
	<u>1,098,800</u>	<u>1,098,800</u>	<u>1,125,287</u>	<u>26,487</u>
Licenses and Permits				
Merchant licenses	5,325	5,325	7,209	1,884
Building permits	11,350	11,350	28,154	16,804
	<u>16,675</u>	<u>16,675</u>	<u>35,363</u>	<u>18,688</u>
Fines and Forfeitures				
Court fines	26,750	26,750	34,866	8,116
Miscellaneous				
Interest	100	100	9,189	9,089
Other receipts	8,295	8,295	19,211	10,916
	<u>8,395</u>	<u>8,395</u>	<u>28,400</u>	<u>20,005</u>
Total Receipts	<u>1,150,620</u>	<u>1,150,620</u>	<u>1,223,916</u>	<u>73,296</u>
Disbursements				
Current				
Administration	369,478	369,478	307,418	62,060
Public safety	631,019	631,019	621,629	9,390
Public works	276,261	276,261	334,671	(58,410)
Recreation	5,300	5,300	-	5,300
Total Disbursements	<u>1,282,058</u>	<u>1,282,058</u>	<u>1,263,718</u>	<u>18,340</u>
<i>(Deficit) of Receipts over Disbursements</i>	(131,438)	(131,438)	(39,802)	91,636
Fund Balance, January 1	221,109	221,109	221,109	-
Fund Balance, December 31	<u>\$ 89,671</u>	<u>\$ 89,671</u>	<u>\$ 181,307</u>	<u>\$ 91,636</u>

See accompanying notes to the financial statements.

City of Knob Noster

Budgetary Comparison Schedule – Fire Fund – Modified Cash Basis

Year Ended December 31, 2019

	Original Budget	Final Budget	Actual	Variance With Final Budget
Receipts				
Taxes				
Property taxes	\$ 60,000	\$ 60,000	\$ 67,838	\$ 7,838
Total Receipts	60,000	60,000	67,838	7,838
Disbursements				
Current				
Fire	47,904	47,904	51,193	(3,289)
Total Disbursements	47,904	47,904	51,193	(3,289)
<i>Excess of Receipts over Disbursements</i>	12,096	12,096	16,645	4,549
Fund Balance, January 1	248,702	248,702	248,702	-
Fund Balance, December 31	\$ 260,798	\$ 260,798	\$ 265,347	\$ 4,549

See accompanying notes to the financial statements.

City of Knob Noster

Notes to the Budgetary Comparison Schedule

Year Ended December 31, 2019

Budgets and Budgetary Accounting

The City uses 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.



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, 2019, 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.

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

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1. Budgetary Compliance

The City was not in compliance with the budgetary statute, Chapter 67 RSMo, in the current year as actual disbursements exceeded budgeted disbursements in the Fire Fund. The budgetary statute prohibits actual disbursements exceeding budgeted disbursements for any fund maintained by the City.

We Recommend:

The City review disbursements during the year and amend the budget as necessary to avoid expending more than the budgeted amount to ensure compliance with the budgetary statute (Chapter 67, RSMo).

2. Cybersecurity

Cybersecurity threats are increasing and government entities of all sizes are at risk for a breach of their information systems. With this increase in risk, entities should be continually evaluating risk and taking steps necessary to ensure the security of information systems. Steps include identifying critical information systems, training employees to properly identify threats received in emails or by other means, and adopting internal communication methods other than email.

It is important that entities develop a recovery plan outlining procedures that personnel should follow once a cybersecurity breach is discovered. Additionally, entities should be aware of any insurance in place to help protect them from liabilities that can occur as the result of a breach.

We Recommend:

The City evaluate its cybersecurity risks and take the necessary steps to reduce the risk of cybersecurity threats to their information systems. This evaluation should be performed frequently as technology and information systems are continually changing.

3. Accounting Software and Financial Reporting

The City uses Quickbooks software for accounting and financial reporting. One limitation with the software is the ability to easily identify a specific fund's cash balances at a specific point in time. Quickbooks offers alternatives such as Balance Sheet and Income Statement by Class to more easily identify each fund's assets, receipts and disbursements for a specified time, however this would likely require an upgrade of the software. Currently, the City cannot review the Balance Sheet and identify the cash balances held by each individual fund.

We Recommend:

The City investigate alternatives to the current format of accounting and financial reporting to ensure the City is able to easily identify cash balances and make informed decisions for each fund maintained by the City.

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
November 17, 2020



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, 2019. 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 May 7, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

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 1 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, 2019. 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.

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
- Equity
- Liabilities

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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 November 17, 2020.

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.

Other Matters

We were not engaged to report on the supplementary information which accompanies the financial statements, but is not required supplementary information. 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.

Restriction on Use

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.

Sincerely,

Handwritten signature in black ink that reads "KPM CPAs, PC".

KPM CPAs, PC
Springfield, Missouri
November 17, 2020