



City of Warrensburg,
Missouri
Audit Summary 2019

KPM

Independent Auditors' Report

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit of the City of Warrensburg, Missouri, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

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Independent Auditors' Report

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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 of 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.

Independent Auditors' Report

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the discretely presented component unit as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the accounting principles generally accepted in the United States of America.

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Balance Sheet – Governmental Funds (pg. 21)

	Special Revenue Funds				Debt Service Funds			Capital Projects Fund		Total Governmental Funds	
	General Fund	Park Fund	Tri-Centennial Fund	Capital Improvement Transportation Fund	Capital Improvement Half-Cent Fund	Debt Service Fund	Neighborhood Improvement Fund	Tax Increment Financing Fund	Capital Improvement Bond Fund		Vehicle Fund
Assets											
Cash and cash equivalents	\$ 4,001,888	\$ 790,536	\$ 11,310	\$ 36,033	\$ 283,806	\$ 159,984	\$ 359,735	\$ 6,245	\$ -	\$ -	\$ 5,649,537
Investments	1,045,959	288,600	3,563	146,055	115,352	-	-	-	-	-	1,599,529
Taxes receivable, net	1,007,222	209,423	-	126,407	281,324	-	-	-	17,689	-	1,642,065
Other accounts receivables	-	22,855	-	-	-	-	-	-	-	-	22,855
Special assessments receivable, net	-	-	-	-	-	-	523,078	-	-	-	523,078
Court fines receivable, net	2,579	-	-	-	-	-	-	-	-	-	2,579
Due from other funds	145,000	-	-	-	-	-	-	-	-	-	145,000
Accrued interest receivable	13,663	3,717	45	1,378	1,475	-	-	-	-	180	20,458
Inventory	12,405	-	-	-	-	-	-	-	-	-	12,405
Prepaid expenses	167,296	22,305	-	-	-	-	-	-	-	-	189,601
Restricted cash and cash equivalents	35,848	277	-	-	-	2,282	260,938	-	22,509	66,619	388,473
Restricted investments	-	-	-	-	-	-	-	-	884,519	-	884,519
Total Assets	<u>\$ 6,431,860</u>	<u>\$ 1,337,713</u>	<u>\$ 14,918</u>	<u>\$ 309,873</u>	<u>\$ 681,957</u>	<u>\$ 162,266</u>	<u>\$ 1,143,751</u>	<u>\$ 6,245</u>	<u>\$ 924,717</u>	<u>\$ 66,799</u>	<u>\$ 11,080,099</u>

1. Total assets decreased \$1.5 million compared to last year
2. When the Capital Improvement Bond Fund activity is removed from the calculation, the City's assets increased by \$249,312
3. The City also had \$252,328 in grants receivable in the prior year compared to no grants receivable at 9/30/2019

Balance Sheet – Governmental Funds (pg. 21)

	Special Revenue Funds				Debt Service Funds			Capital Projects Fund		Total Governmental Funds	
	General Fund	Park Fund	Tri-Centennial Fund	Capital Improvement Transportation Fund	Capital Improvement Half-Cent Fund	Debt Service Fund	Neighborhood Improvement Fund	Tax Increment Financing Fund	Capital Improvement Bond Fund		Vehicle Fund
Liabilities											
Accounts payable	\$ 325,669	\$ 97,897	\$ -	\$ 6,941	\$ 87,867	\$ -	\$ -	\$ 1,893	\$ 494,458	\$ -	\$ 1,014,725
Accrued expenses	160,824	21,343	-	-	-	-	-	-	-	-	182,167
Court bonds payable	9,328	-	-	-	-	-	-	-	-	-	9,328
Due to other funds	-	-	-	-	-	145,000	-	-	-	-	145,000
Unearned revenue	26,520	95,571	-	-	-	-	-	-	-	-	122,091
Total Liabilities	522,341	214,811	-	6,941	87,867	145,000	-	1,893	494,458	-	1,473,311

1. Total liabilities decreased \$686,516 compared to last year
2. When the Capital Improvement Bond Fund activity is removed from the calculation, the City's liabilities decreased by \$254,477
3. General Fund liabilities increased \$44,358
4. Park Fund liabilities increased \$16,742
5. Capital Improvement ½ Cent Fund liabilities increased \$73,155
6. Accounts payable in the Capital Improvement Transportation Fund declined by \$338,732

Balance Sheet – Governmental Funds (pg. 22)

	Special Revenue Funds					Debt Service Funds			Capital Projects Fund		Total Governmental Funds
	General Fund	Park Fund	Tri-Centennial Fund	Capital Improvement Transportation Fund	Capital Improvement Half-Cent Fund	Debt Service Fund	Neighborhood Improvement Fund	Tax Increment Financing Fund	Capital Improvement Bond Fund	Vehicle Fund	
Deferred Inflow of Resources											
Deferred inflows - special assessments	-	-	-	-	-	-	523,078	-	-	-	523,078
Fund Balances											
Nonspendable:											
Inventory	12,405	-	-	-	-	-	-	-	-	-	12,405
Prepaid expenses	167,296	22,305	-	-	-	-	-	-	-	-	189,601
Restricted for:											
Debt Service	-	-	-	-	-	17,266	620,673	4,352	-	-	642,291
Capital improvements	-	-	-	302,932	594,090	-	-	-	430,259	66,799	1,394,080
Tri-centennial	-	-	14,918	-	-	-	-	-	-	-	14,918
Parks and recreation	-	1,100,597	-	-	-	-	-	-	-	-	1,100,597
Unassigned	5,729,818	-	-	-	-	-	-	-	-	-	5,729,818
Total Fund Balances	5,909,519	1,122,902	14,918	302,932	594,090	17,266	620,673	4,352	430,259	66,799	9,083,710

1. Governmental Funds – Fund Balance decreased by a total of \$747,009
2. When the Capital Improvement Bond Fund activity is removed from the calculation, the City’s Governmental Fund Balances would have increased by \$580,239
3. General Fund increased by \$39,017 for year

Statement of Revenues, Expenditures & Changes in Fund Balance (pg. 24)

	Special Revenue Funds					Debt Service Funds			Capital Projects Fund		Total Governmental Funds
	General Fund	Park Fund	Tri-Centennial Fund	Capital Improvement Transportation Fund	Capital Improvement Half-Cent Fund	Debt Service Fund	Neighborhood Improvement Fund	Tax Increment Financing Fund	Capital Improvement Bond Fund	Vehicle Fund	
Revenues											
Taxes	\$ 8,204,567	\$ 1,808,084	\$ -	\$ 762,823	\$ 1,862,859	\$ -	\$ 76,323	\$ 149,409	\$ 1,041,307	\$ -	\$ 13,905,372
Licenses and permits	227,877	-	-	-	-	-	-	-	-	-	227,877
Intergovernmental revenues	1,200	81,161	-	85,241	-	-	-	-	-	-	167,602
Charges for services	216,608	836,304	-	-	-	-	-	-	-	-	1,052,912
Fines and forfeitures	368,425	-	-	-	-	-	-	-	-	-	368,425
Interest income	148,565	32,470	431	10,686	14,674	802	-	-	34,338	951	242,917
Miscellaneous	133,124	118,768	-	5,566	-	-	-	-	-	3,847	261,305
Total Revenues	9,300,366	2,876,787	431	864,316	1,877,533	802	76,323	149,409	1,075,645	4,798	16,226,410
Expenditures											
Current											
General government	508,156	-	-	-	-	-	100	-	-	-	508,256
Finance	487,372	-	-	-	-	-	-	-	-	-	487,372
Other support services	506,941	-	-	-	-	-	-	-	-	-	506,941
Information technology	589,904	-	-	-	-	-	-	-	-	-	589,904
Municipal court	156,261	-	-	-	-	-	-	-	-	-	156,261
Buildings and grounds	303,403	-	-	-	-	-	-	-	-	-	303,403
Public safety and health	5,385,059	-	-	-	-	-	-	-	-	-	5,385,059
Community development	708,242	-	-	-	-	-	-	145,077	-	-	853,319
Transportation	1,795,752	-	-	-	-	-	-	-	-	-	1,795,752
Cemetery	102,289	-	-	-	-	-	-	-	-	-	102,289
Parks and recreation	-	2,481,341	-	-	-	-	-	-	-	-	2,481,341
Capital improvements	-	-	-	879,307	173,415	-	-	-	1,194,894	67	2,247,683
Debt Service											
Principal and interest	-	-	-	-	-	2,697,978	262,384	-	-	-	2,960,362
Total Expenditures	10,543,379	2,481,341	-	879,307	173,415	2,697,978	262,484	145,077	1,194,894	67	18,377,942

1. Revenues - Taxes and Charges for Services increased by \$127,825 and \$132,616 respectively while Grant Revenue declined \$218,424
2. Expenditures – Declined in total by \$11 million, however this is primarily due to a bond refinancing in the prior year and decreases in Capital Improvement Bond Fund expenditures.

Statement of Revenues, Expenditures & Changes in Fund Balance (pg. 25)

	Special Revenue Funds					Debt Service Funds			Capital Projects Fund		Total Governmental Funds
	General Fund	Park Fund	Tri-Centennial Fund	Capital Improvement Transportation Fund	Capital Improvement Half-Cent Fund	Debt Service Fund	Neighborhood Improvement Fund	Tax Increment Financing Fund	Capital Improvement Bond Fund	Vehicle Fund	
<i>Excess (Deficit) of Revenues over Expenditures</i>	(1,243,013)	395,446	431	(14,991)	1,704,118	(2,697,176)	(186,161)	4,332	(119,249)	4,731	(2,151,532)
Other Financing Sources (Uses)											
Sale of land	-	-	-	-	-	-	440,875	-	-	-	440,875
Sale of equipment	-	-	-	-	-	-	-	-	-	62,068	62,068
Lease proceeds	234,580	-	-	-	-	-	-	-	-	-	234,580
Operating transfers in (out)	1,047,450	(283,689)	-	-	(1,585,937)	2,697,175	-	-	(1,207,999)	-	667,000
Total Other Financing Sources (Uses)	1,282,030	(283,689)	-	-	(1,585,937)	2,697,175	440,875	-	(1,207,999)	62,068	1,404,523
<i>Excess (Deficit) of Revenues and Other Sources over Expenditures and other (Uses)</i>	39,017	111,757	431	(14,991)	118,181	(1)	254,714	4,332	(1,327,248)	66,799	(747,009)
Fund Balance, October 1 **	5,870,502	1,011,145	14,487	317,923	475,909	17,267	365,959	20	1,757,507	-	9,830,719
Fund Balance, September 30	\$ 5,909,519	\$ 1,122,902	\$ 14,918	\$ 302,932	\$ 594,090	\$ 17,266	\$ 620,673	\$ 4,352	\$ 430,259	\$ 66,799	\$ 9,083,710

** - as restated

Revenues net of expenditures and other financing sources (uses) resulted in the changes in fund balances and ending balances noted above.

1. General Fund increased \$39,017
2. Total for all Governmental Funds decreased by \$747,009. If the activity in the Capital Improvement Bond Fund is excluded, the City would have shown an increase of \$580,239 for the year

Statement of Net Position – Proprietary Funds (pg. 27)

	Enterprise Fund Sewer Fund	Internal Service Fund
Assets		
Current Assets		
Cash and cash equivalents	\$ 2,292,034	\$ 647,092
Investments	439,628	141,695
Utilities receivable, net	463,944	-
Accrued interest receivable	5,887	1,821
Prepaid expenses	33,460	-
Total Current Assets	3,234,953	790,608
Noncurrent Assets		
Net pension asset	290,370	-
Total Noncurrent Assets	290,370	-
Restricted Assets		
Cash and cash equivalents	249,285	-
Investments	640,522	-
Total Restricted Assets	889,807	-
Property, Plant and Equipment		
Land	392,583	-
Buildings and improvements	19,494,721	-
Sewer mains and lines	27,214,393	-
Machinery and equipment	1,123,051	-
	48,224,748	-
Less accumulated depreciation	(23,276,696)	-
Total Property, Plant, and Equipment	24,948,052	-
Total Assets	29,363,182	790,608
Deferred Outflow of Resources		
Deferred pension outflow	19,114	-
Total Deferred Outflow of Resources	19,114	-

1. Sewer Fund current assets increased \$516K and of that \$495K was in cash and investments
2. Total assets for Sewer Fund declined \$514K primarily due to depreciation of capital assets (1.5million)
3. Internal Service assets increase \$91K from prior year

Statement of Net Position – Proprietary Funds (pg. 28)

	<u>Enterprise Fund Sewer Fund</u>	<u>Internal Service Fund</u>
Liabilities		
Current Liabilities		
Accounts payable	115,911	171,012
Accrued expenses	16,650	-
Accrued interest payable	98,849	-
Arbitrage payable	122,558	-
Current maturities of long-term debt	1,245,000	-
Total Current Liabilities	<u>1,598,968</u>	<u>171,012</u>
Long-Term Liabilities		
Revenue bonds payable, net	11,056,423	-
Compensated absences payable	34,398	-
Total Long-Term Liabilities	<u>11,090,821</u>	<u>-</u>
Total Liabilities	12,689,789	171,012
Deferred Inflow of Resources		
Deferred pension inflow	61,925	-
Total Deferred Inflow of Resources	<u>61,925</u>	<u>-</u>
Net Position		
Net investment in capital assets	12,612,231	-
Restricted	767,247	-
Unrestricted	3,251,104	619,596
Total Net Position	<u>\$ 16,630,582</u>	<u>\$ 619,596</u>

1. Sewer Fund total liabilities decreased by \$1.2 million
2. Sewer Fund Net Position increased \$713,049
3. Internal Service liabilities increased \$65K from prior year
4. Internal Service balance increased \$56K from prior year

Statement of Revenues, Expenses & Changes in Net Position (pg. 29)

	<u>Enterprise Fund</u> <u>Sewer Fund</u>	<u>Internal Service</u> <u>Fund</u>
Operating Revenues	\$ 4,596,018	\$ -
Charges for services	3,655	-
Miscellaneous	-	1,062,449
Premiums	4,599,673	1,062,449
Total Operating Revenues		
Operating Revenues	741,471	-
Personnel services	107,496	-
Contractual services	201,091	-
Repairs and maintenance	65,022	-
Supplies	339,611	-
Utilities	2,484	-
Education	17,856	-
Labs and testing	60,400	-
Insurance expenses	1,488,968	-
Depreciation	44,938	-
Miscellaneous	-	668,360
Insurance claims	-	359,085
Insurance administration fees	3,069,337	1,027,445
Total Operating Expenses		
Operating Income	1,530,336	35,004
Nonoperating Revenues (Expenses)		
Interest income	339,965	20,994
Interest expense	(490,252)	-
Total Nonoperating Revenues (Expenses)	(150,287)	20,994
<i>Income Before Operating Transfers</i>	1,380,049	55,998
Operating Transfers (Out)	(667,000)	-
<i>Net Income</i>	713,049	55,998
Net Position, October 1	15,917,533	563,598
Net Position, September 30	<u>\$ 16,630,582</u>	<u>\$ 619,596</u>

1. Sewer Fund operating revenues increased \$57K
2. Operating Expenses for Sewer Fund declined \$202K
3. Sewer Fund Net Income grew by \$265K from prior year to \$713
4. Internal Service Fund had a net income of \$55,998 in the current year compared to \$214,575 last year

Management Recommendation Letter Items

1. New Pronouncement

The Governmental Accounting Standards Board (GASB) has issued the following pronouncement that may affect the City in future years:

GASB Statement No. 87 – Leases – This Statement establishes a single model for lease accounting. It changes the definition of a lease and requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. The effective date is for the City’s year ending September 30, 2020, with earlier application encouraged.

We Recommend:

Management examine the new pronouncement to determine the effect this will have on future financial reporting and to ensure successful implementation on the effective dates.

Management Recommendation Letter Items

2. Bank Depository Agreements

As a custodian of public monies, we believe the City should review certain elements of depository agreements with the City's banking institutions to ensure proper controls are in place regarding the deposits. The City has a responsibility for the safety of City monies and the depository agreements are often not reviewed and updated appropriately.

We Recommend:

- a. The City determine that the depository agreement with the banking institution has instructions regarding when a check is valid and may be honored by the institution. If more than one signature is required on checks, then the depository agreement should reflect that requirement.
- b. The City determine that the depository agreement specify the persons authorized to make wire transfers and to whom they may be made. This is necessary to prevent unauthorized wire transfers of City funds.
- c. The City determine that the depository agreement has procedures for opening new accounts in order to prevent unauthorized accounts from being opened under the City name.

Items of note

- Current events have led and are leading to changes in normal operating procedures:
 - Social distancing
 - Telework / remote work
 - Business disruptions
- As the situation evolves and emergency procedures are enacted in response to COVID-19, please monitor the impact on existing internal controls and make adaptations to the control processes as needed

Management Recommendation Letter Items

3. Internal Audit Procedures

As the City evolves, personnel, policies and procedures change. The City should periodically conduct a review of its internal control procedures to determine if any changes are necessary in order to protect the City's assets. As part of the process, the City should add periodic inspection of off-site procedures to verify that City policies and procedures are being followed routinely at satellite locations. While the situation had been corrected at the time of the audit, it was noted that during the year the Park department experienced deviations from normal City procedures and these instances resulted in extra time being spent by the accounting staff to determine what occurred and the necessary adjusting journal entries needed to correct the matter.

We Recommend:

The City conduct a review of its internal control procedures to determine opportunities for strengthening safeguards over the City's assets. The City may want to consider conducting reviews on cash management, computer information systems, mail distribution procedures, purchasing procedures, new vendor procedures, and other areas the City considers necessary. The City could also perform surprise visits to various facilities that collect cash to verify that appropriate controls are being exercised over the collection, recording, and depositing of cash. Random internal audit procedures serve the function of ensuring that the City's approved policies and procedures are being followed.

Management Recommendation Letter Items

4. 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.

Items of note

- New accounting standard for 2019-20 with GASB 84 – Fiduciary Activities
 - Establishes criteria for identifying fiduciary activities focused on:
 - Whether the government is controlling the assets of the fiduciary activity
 - The beneficiaries with whom a fiduciary relationship exists
 - Establishes 4 fiduciary funds that should be reported where applicable
 - Pension & other employee benefit trust funds
 - Investment trust funds
 - Private-purpose trust funds
 - Custodial funds (formerly agency funds)
 - This standard will apply as there are Agency Funds and Custodial Funds that are held by the City

Items of note

- Effective for fiscal year end 2022:
 - GASB 91 Conduit Debt Obligations
 - Effective fiscal year end 2022
 - GASB is working a complete overhaul of the governmental reporting model and it is likely to happen in the next three-five years
 - Please check out [gasb.org](https://www.gasb.org) for the latest from the Governmental Accounting Standards Board on all pronouncements

Other information

- If you have questions throughout the year, my phone number is 417-882-4300 or my email address is jcummings@kpmcpa.com
- Thank you